

Audit of the Public Accounts for the year ended March 31, 2007

#### Audit of the Public

Accounts:

Executive

Management

Carol Bellringer Mala Sachdeva

Greg MacBeth

#### Principals

Susan Hay Melissa Emslie

#### **Audit Team**

Serene Desmond John Donnelly Jeff Gilbert Gord Glesmann Mike Gwynne

Ashley Jia Io Johnson

Leah Lin Donovan Melvor

Fraser McLean

Dallas Muir Jacqueline Ngai

Faizul Rahim Michel St. Amant Barry Saunders

Tyson Shtykalo

Jon Stoesz Grant Voakes Alison Wadge

#### Other Contributors

Phil Torchia Joel Kirton

#### Audit of Mandatory Legislative Review:

#### Executive Management

Carol Bellringer Norman Ricard

#### Principal

Marianne Farag

#### **Background Research**

Fraser McLean

#### **Desktop Publisher**

Sandra Humbert

#### Cover Design

Cocoon Branding Inc.

#### Vision

Contributing to public trust in the provincial government and its organizations through the independent audit of management practices and accountability reports.

#### Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

- · government accountability information;
- · compliance with legislative authorities; and
- · the operational performance of government.

#### Values

#### In Interpersonal Relationships

Respect

Honesty

Integrity

Openness

#### In Achieving Our Vision

Teamwork

**Balanced Perspectives** 

Independence

Professional Excellence

Copies of this report may be obtained by contacting:

#### Office of the Auditor General

500 – 330 Portage Avenue Winnipeg, Manitoba CANADA R3C 0C4

.....

Phone: (204) 945-3790

Fax: (204) 945-2169

Email: contact@oag.mb.ca

Website: www.oag.mb.ca



December 2007

The Honourable George Hickes Speaker of the House Room 244, Legislative Building Winnipeg, Manitoba R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report titled, Audit of the Public Accounts for the year ended March 31, 2007, to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

In last year's report on the Audit of the Public Accounts for the year ended March 31, 2006, I emphasized the substantial progress made in the shift to the Summary Financial Statements. This year, the Government introduced its first summary budget for 2007/08 and continued to move towards the introduction of financial statements for the 2008 fiscal year end which are expected to be fully compliant with Generally Accepted Accounting Principles for the public sector. These actions are significant and noteworthy.

There are, however, recommendations which have been included in our report for a number of years which are yet to be resolved. We encourage the Government to fully implement our recommendations in the Information Systems area. Our report also carries forward past recommendations related to performance reporting information. We continue to work with central government officials to better understand their expectations and to provide them with our advice while they revise the guidelines available to government departments.

Last year, our report included an update around the *Role of the Public Accounts Committee of Manitoba*, the Legislative Standing Committee to which all of our reports are referred. I had noted that the Public Accounts Committee (PAC) had improved over the past number of years with stronger rules and more frequent meetings. I also noted my intention to promote constructive improvements to the PAC operations as a priority activity for our office. Over this past year, all Committee members, in particular the Chairperson of the PAC, have clearly demonstrated their interest in acting to improve operations. However, I am disappointed that over 25 of our reports have not yet been addressed by the Committee. I continue to encourage the Government House Leader in consultation with the PAC Chairperson and Vice-Chairperson to prepare a schedule which will address this backlog, while continuing to strengthen practices in this area.

Respectfully submitted,

Carol Bellringer, FCA, MBA

Garol Gellinger

Auditor General

## **Table of Contents**

Executive Summary	1
Summary of Recommendations	5
Understanding the Public Accounts	13
Financial Reporting Structure	
Accountability Organization	16
Auditor Independence and Objectivity	16
Summary Financial Statements - Auditor's Report	17
Continuing the Focus Towards the Summary Financial Statements	23
Understanding the Summary Financial Statements	24
Financial Condition	27
Significant Improvements in Financial Statement Reporting in the 2006/07 Public Accounts	33
Public Accounts - Recommendations	34
Developing New Balanced Budget Legislation	38
Quarterly Reporting	39
Information Systems	39
Annual Reports	43
Entities Included in the Summary Financial Statements	47
Government Reporting Entity	47
Who Conducts the Audits	48
Relationship with Private Sector Auditors	48
Reliance On The Work Of Private Sector Auditors	50
Management Letters Issues	51
Future Handbook Sections Affecting the Public Accounts and Related Impacts.	
Public Sector Accounting Board	55
New and Future PSAB Handbook Sections Affecting Financial Reporting in the Public Accounts	
New PSAB Handbook Sections	56
PSAB Projects	57
New Accounting Handbook Sections Affecting Financial Reporting for Entities in the Public Sector	63
New CICA Assurance (Auditing) Standards Affecting Audits in the Public Sector	65

## **Appendices**

Appendix A: Summary of Who Conducts the Audits

Appendix B: Glossary

Audit	dit of Mandatory Legislative Reviews		77
1.0	Intro	duction	77
	1.1	Objectives, Scope, and Approach	77
2.0	Back	ground	78
	2.1		
	2.2	The Mandatory Review Process	78
3.0	Findi	ings and Conclusions	79
	3.1	Compliance with Mandatory Reviews	79
4.0	Reco	mmendations	82
5.0	Resp	onse from Officials	83

Exhibit A: Legislation Requiring a Review Between January 1, 2000 and October 1, 2006

Exhibit B: Staff Perspective

**Executive Summary** 



# **Executive Summary**

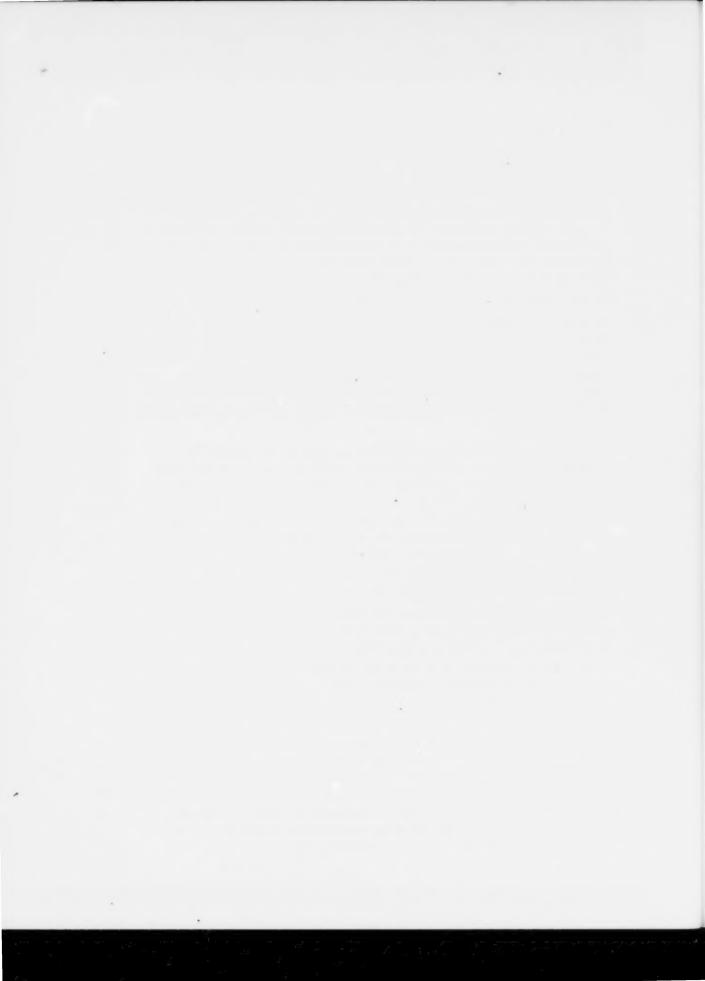
The 2006/07 fiscal year has been another year in the transition to summary budgeting and financial reporting. When the Government redefined its Reporting Entity in 2005/06, public schools were included. However, at that time, public school divisions were not using Public Sector Accounting Board (PSAB) Generally Accepted Accounting Principles (GAAP) as their basis of accounting and therefore their financial statements could not be consolidated in the Summary Financial Statements. The inability to consolidate public schools' net assets and operating results in the Summary Financial Statements has resulted in a reservation in the Auditor's Report for the 2007 and 2006 fiscal years.

However, school divisions have now prepared PSAB GAAP financial statements for the year ended June 30, 2007 and are expected to provide GAAP financial information for 2007/08 which will be consolidated into the Summary Financial Statements. We anticipate that the Government will then be able to prepare complete GAAP financial statements. In preparation for this, the Government has prepared their first summary budget for the 2007/08 fiscal year, and presented this in April 2007.

As well, it is expected that for the 2007/08 fiscal year the Government will be introducing amendments to balanced budget legislation to reference the use of the Summary Financial Statements for financial reporting purposes. That change, it is expected, will also result in the elimination of the publishing of the Special Purpose Financial Statements. The Government has committed to making these changes and we anticipate that next year, the Government will have moved to complete GAAP summary financial reporting. That change will eliminate the confusion that currently exists with the publishing of two sets of financial statements, Special Purpose and Summary Financial Statements.

Our report on the Public Accounts for the 2006/07 fiscal year focuses on providing information to promote a better understanding of the Summary Financial Statements and the Auditor's report, and the compendium reporting that is included in the Province's Annual Report on the Public Accounts. As well, we also provide and review the status of implementation of our past recommendations for public accounts improvements.

In addition to our report on public accounts, we are also including the results of our audit work related to the Audit of Mandatory Legislative Reviews. Over the past decade a number of statutes and regulations incorporated a clause for a mandatory review of the statute or regulation within 5 years of its enactment. The objective of the audit was to determine whether departments were complying with this requirement. Part of our audit process included roundtable sessions with government staff in order to gain an understanding of their perspective and experience with undertaking mandatory legislative reviews.



**Summary of Recommendations** 



# **Summary of Recommendations**

#### Recommendation 1

That the Government set targets for its financial indicators in its fiscal planning document, and report back against its actual performance as compared to target in its annual report for the fiscal year.

### Response From Officials

In Budget 2007, the Manitoba Government published its first annual Financial Management Strategy which sets out the government's priorities for financial management, one or more measurable outcomes for each priority area, and sets objectives for the current year and for the future. Results achieved in relation to priorities and measurable outcomes set out in the 2007/08 Financial Management Strategy will be reported in Government's annual report (Public Accounts) for the year ending March 31, 2008. Publishing an annual Financial Management Strategy of this nature, and reporting on results in relation to the Strategy, was recommended by Deloitte and Touche in their reports received in June 2006 outlining steps Government could take in its transition to full Summary Budgeting and Reporting.

#### Recommendation 2

That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.

### Response From Officials

Budget 2007 committed to introducing new Balanced Budget Legislation that will support the transition to Summary Budgeting and Reporting. Changes to Balanced Budget Legislation to refer to Summary Financial Statements will be introduced in the current legislative sitting.

#### Recommendation 3

That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of The Balanced Budget, Debt Repayment, and Taxpayer Accountability Act or under the amended legislation and communicate these criteria to the Members of the Legislative Assembly.

### Response From Officials

Ongoing discussions with the Office of the Auditor General are underway regarding development of appropriate criteria for exclusions.

#### Recommendation 4

That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable.

### Response From Officials

As part of the transition to Summary Budgeting and Reporting, and as recommended by Deloitte, Government will get a full year's experience in the Summary environment before introducing changes to quarterly reporting. We will begin to introduce appropriate changes in 2008/09 and will complete the transformation of our quarterly reporting by the end of 2009/10.

#### Recommendation 5

That Internal Auditing and Consulting Services fully implement their plan to expand their work on an annual basis to test controls over financial reporting, including computer application controls in SAP and other significant information systems.

## Response From Officials

In accordance with strategic directions, Internal Audit and Consulting Services (IACS) is committed to and striving towards establishing increased emphasis on corporate, systematic and risk-based audit approaches. IACS is developing strategies for reviews of information technology (IT) controls, including SAP and other key systems, and has

commenced with IT general controls testing. Currently, these plans include a review of selected general computer controls over financial reporting for significant information systems. IACS continues to work with the Office of the Auditor General to further develop and implement documentation and testing approaches.

#### Recommendation 6

Access Rights to SAP:

- That managers be given purchasing approval rights in SAP in accordance with Department Delegation of Financial Signing Authority Charts.
- b) That the system of Department Delegation of Financial Signing Authority Charts, including specimen signature cards, be reviewed for improving, possibly through automation, the maintenance and availability of the documentation.
- c) That the Comptroller's Office monitors the purchasing approval rights of users in SAP to ensure that such rights are not excessive and comply with the requirements of the Financial Administration Manual.

## Response From Officials

The Manitoba Government has recently upgraded the SAP system to the MySAP version. As part of the upgrade, a central committee of Deputy Ministers has been formed. The Comptroller's Office, in conjunction with Information and Communications Technology Services Manitoba (ICTSM) is undertaking a complete review of role assignments to better reflect delegated authorities.

As part of Comptrollership plans, departments were asked to address the issue of financial signing authorities and to indicate how they ensure that delegated authorities are properly represented in SAP. Comptrollership plans are subject to review and audit by IACS.

The Comptroller's Office will continue to review processes to ensure that the purchasing approval rights assigned to users in SAP are within specified guidelines and approved departmental delegated authorities, and that they are being provided in accordance with the requirements of the Financial Administration Manual.

#### Recommendation 7

That the Comptroller's Office in collaboration with the Office of the CIO review the use of security software tools to better manage the risks involving users with incompatible duties.

## Response From Officials

With the introduction of MySAP, the Comptroller's Office in conjunction with ICTSM has undertaken a complete security review and is implementing a roles-based environment. The SAP Roles and Access project was completed in November 2007. The project resulted in new architecture for SAP security authorizations. New transactions authorization groups were defined based on job function and assigned to specific users in those job functions. The Comptroller's Office is reviewing the risks and identifying solutions for incompatible functions.

#### **Recommendation 8**

Disaster Recovery/Business Continuity Plans:

- a) That the Comptroller's Office in collaboration with the Office of the CIO ensure that business impact analyses be conducted on a coordinated basis by Departments to help develop suitable plans to recover computer processing capabilities in response to adverse events that disrupt computer processing services or facilities.
- b) That the business impact analyses be used on a coordinated basis to develop suitable plans to continue critical business functions in response to adverse events that disrupt business operations.
- c) That disaster recovery and business continuity plans be documented and tested to ensure their effectiveness.

## Response From Officials

A Business Continuity Planning (BCP) initiative is being led by Manitoba Emergency Measures Organization and includes a plan to recover computer processing capabilities in response to adverse events that disrupt computer processing services or facilities. ICTSM is working on a

business resumption plan for IT service, as part of the larger government-wide initiative on overall BCP.

A preliminary business impact analysis on continuity of critical business functions has been completed. ICTSM has identified the need for a BCP/Disaster Recovery Plan (DRP) Specialist. The Provincial Comptroller's Office will work with the Office of the CIO to establish requirements to ensure that suitable plans to recover computer processing capabilities of departments are developed and updated on a regular basis and that critical business functions can continue in the event of a disruption of business operations.

Once the BCP/DRP specialist has been hired, the Office of the CIO will ensure that Disaster Recovery and Business Continuity Plans are in place and tested.

#### **Recommendation 9**

That the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects PSAB's Statement of Recommended Practice on Financial Statement Discussion and Analysis and PSAB's Statement of Recommended Practice on Public Performance Reporting.

## Response From Officials

Budget 2007 committed to establishing a regular means of reporting overall government performance in key areas, which will address the complementary relationship between non-financial performance information and the financial performance indicators now reported annually in the Public Accounts.

#### Recommendation 10

That the Province of Manitoba further assist departments to improve performance measurement and reporting through guidance based on the CICA Statement of Recommended Practice on Public Performance Reporting.

## Response From Officials

Manitoba continues to be committed to enhancing performance reporting, including supporting performance reporting as it relates to departmental planning and management. Departments have been assisted in developing performance measurement through workshops. Over 200 department planning and financial staff have attended these workshops. Ongoing coordination and assistance is provided to departments by Treasury Board Secretariat.

#### Recommendation 11

That the Government develop a plan to discharge its remaining obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities.

### Response From Officials

Officials are reviewing the issue with affected organizations and responsible departments; where required, to develop appropriate solutions. It should be noted that these liabilities are accounting accruals, not cash requirements. The Manitoba Government has communicated to organizations that they are expected to manage increases to these liabilities within their approved funding levels.

#### Recommendation 12

That the Government develop a plan to discharge its loans from and funding commitments to government organizations for pension liabilities.

## Response From Officials

Officials are reviewing the issue and will discuss with the affected organizations an appropriate solution to deal with pension liabilities.

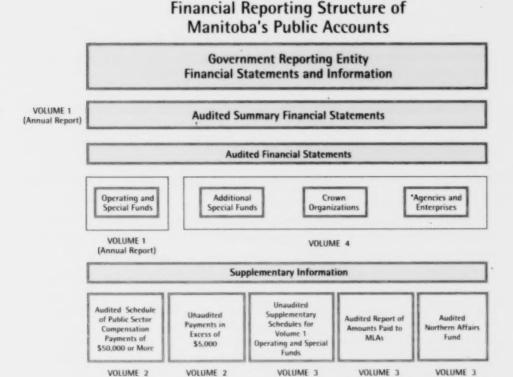
**Understanding the Public Accounts** 



# **Understanding the Public Accounts**

**Financial Reporting Structure** 

Figure 1



<sup>\*</sup> Detailed Audited Financial Statements of Special Operating Agencies (\$OAs) are included in a separate annual report prepared for the Special Operating Agencies Financing Authority (SOAFA)

The Public Accounts of Manitoba represent the annual financial statements for the Province of Manitoba (Province). These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which the Government reports to the Legislative Assembly and to all Manitobans on its overall stewardship of public funds.

The Public Accounts are prepared in accordance with The Financial Administration Act and contain the financial statements and supporting information required by this legislation. The Public Accounts also includes information required by

other legislation such as The Balanced Budget, Debt Repayment and Taxpayer Accountability Act and The Public Sector Compensation Disclosure Act.

Currently, the Public Accounts are represented by two distinct sets of financial statements. The Summary Financial Statements are the General Purpose statements of the Government, and in our opinion is the only set of financial statements necessary to understand the operating results and the financial position of the Province.

The Summary Financial Statements provide audited information on the aggregate financial affairs and resources for which the Government is responsible, including government business enterprises and crown organizations as listed in Appendix A. The Summary Financial Statements are prepared in accordance with public sector accounting standards (as issued by the Public Sector Accounting Board [PSAB]) of the Canadian Institute of Chartered Accountants (CICA), except for the nonconsolidation of public school divisions. The consolidation of the financial position and annual results of public school divisions in the Summary Financial Statements is expected to occur for the first time in 2007/08. The consolidated net income reported in the Summary Financial Statements of the Government for 2006/07 was \$430 million.

The other set of financial statements presented in the Public Accounts are the Financial Statements of the Operating Fund and Special Funds. These financial statements report the financial results for a portion of the areas which the Government controls, and permit too much flexibility in reporting to be used as a meaningful and reliable measure of the Government's financial performance for the year. They are Special Purpose in nature and are used as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by The Appropriation Act and other statutory spending authorities. These financial statements are also used to reflect the Government's compliance with The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. For 2006/07 the Government recorded a positive balance of \$110 million including the inter-fund transfer to the Debt Retirement Fund and, therefore, was in compliance with balanced budget legislation. These statements do not incorporate the Government's unfunded pension liabilities or the results of other organizations controlled by the Government as included in the Summary Financial Statements, except for the net income from Manitoba Lotteries Corporation and the Manitoba Liquor Control Commission which is received during the year by the Operating Fund. In addition the Operating Fund Financial Statements reflect transfers to and from the Fiscal Stabilization Fund, which can alter current year results.

The Public Accounts for the 2006/07 fiscal year are published in four volumes. The preceding chart illustrates the structure of the Government's financial reporting in the Public Accounts.

Volume 1, Province of Manitoba Annual Report, contains:

- · the audited Summary Financial Statements;
- the audited Special Purpose Financial Statements of the Operating Fund and Special Funds (Operating Fund);
- · the Minister of Finance's comments for the year ended March 31, 2007;
- · information on the Manitoba economy;
- · discussions on financial indicators; and
- variance explanations for the Special Purpose Financial Statements of the Operating Fund.

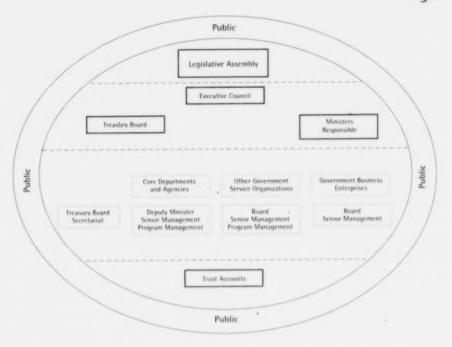
**Volume 2**, Supplementary Information, contains details of employee compensation of \$50,000 or more, as well as information on other payments from the Operating Fund in excess of \$5,000 to corporations, firms, individuals, other governments and government agencies. The information on employee compensation of \$50,000 or more is audited as required by The Public Sector Compensation Disclosure Act. The information on other payments from the Operating Fund to corporations, firms, individuals, other governments and government agencies is unaudited.

Volume 3, Supplementary Schedules and Other Statutory Reporting Requirements, provides additional information on the Operating Fund of the Government. This financial information is unaudited with the exception of the Report of Amounts Paid to MLAs and the Northern Affairs Fund.

Volume 4, The Financial Statements of Funds, Organizations, Agencies and Enterprises Comprising the Government Reporting Entity, contains the individual audited financial statements of the various entities controlled by the Government which are included in the Government Reporting Entity for the Province of Manitoba, except for the Operating Fund and Special Operating Agencies (SOAs). (However, Volume 4 contains the financial statements for the Special Operating Agencies Financing Authority.) The audited financial statements of SOAs are included in a separate annual report prepared for the Special Operating Agencies Financing Authority.

## **Accountability Organization**

Figure 2



**Figure 2** provides an overview of the accountability organization of the provincial public sector. It is not intended to represent all parties or relationships involved, but rather to emphasize the various levels that exist, and that accountability to the public is relevant at all levels.

It can be used when considering accountability at various levels within Provincial operations reflecting the Government's accountability to citizens, to the Legislative Assembly, Departments' and Provincial public sector entities' accountability to the Government, Deputy Minister's or Board's accountability to a Minister, and management's accountability to a Deputy Minister.

## Auditor Independence and Objectivity

As a member of the legislative audit community, we strive to maintain the highest standards of independence and objectivity in the conduct of our audits. In Manitoba, our audit role has included an involvement with prospectuses as well as the financial statement audit of the Public Accounts and other organizations. We do not provide non-assurance services which would compromise our independence, such as designing or implementing a hardware or software system,

valuation services, financial statement preparation or bookkeeping services, legal services or internal audit services.

Our independence is strengthened because we report directly to the Legislative Assembly and also by having all our reports referred to the Public Accounts Committee. We audit the Public Accounts, and the financial statements of some organizations within the Government Reporting Entity (GRE), either directly or through private sector auditors who act as our agents. As well, we rely on the work of private sector auditors who conduct sixty-one of the audits of GRE organizations directly.

During the past year we maintained our communication with audit committees or their equivalents and continued to take steps to ensure that the private sector auditors of the organizations within the government reporting entity adhered to independence and conflict of interest standards.

We believe that we provide a high level of assurance in our reports to the Legislative Assembly, and therefore to the citizens of Manitoba, and we will continue to ensure our independence and objectivity in all our work. Our staff members are required to disclose any conflicts of interest each year. We are guided by the Institute of Chartered Accountants of Manitoba, whose rules of professional conduct prohibit anyone from auditing an organization where they were an officer or director within the last year. We schedule our audit staff to eliminate any situation which could put them in a conflict of interest position.

## Summary Financial Statements - Auditor's Report

The Government continues to commit to financial reporting focused on the Summary Financial Statements and to eliminate the published audited Special Purpose Financial Statements by the 2007/08 fiscal year.

In Manitoba, the Summary Financial Statements are presented in the Annual Report together with the Auditor General's Report thereon. The Auditor's Report on the Summary Financial Statements is on page 51 of the annual report and the Summary Financial Statements for the year ended March 31, 2007 are on pages 47 through 93.<sup>1</sup>

The Auditor General Act requires the Auditor General to provide assurance to the Legislative Assembly on the annual Public Accounts and other accountability documents prepared by the Government. To address this mandate, the office issues high level assurance reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA).

<sup>1</sup> http://www.gov.mb.ca/finance/financialreports.html

The purpose of the auditor's report is to provide the reader with a high level of assurance on the fairness of financial statements, while describing the distinct roles of management and the auditor with respect to these financial statements, and outlining the nature and scope of audit work conducted.

An unqualified auditor's report, where there is no reservation of opinion, contains three standard paragraphs. The introductory paragraph identifies the financial statements that have been audited and reflects management's responsibility for preparing the financial statements as well as the auditor's responsibility for expressing an opinion on the fairness of the balances, transaction totals and overall presentation. The second paragraph describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to Generally Accepted Auditing Standards (GAAS) and describes some of the important procedures the auditor undertakes. The third paragraph contains the auditor's opinion or conclusion based on the audit conducted.

The Public Sector Accounting Board (PSAB) sets generally accepted accounting principles (GAAP) for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent standards for governments and are the benchmark for acceptable financial reporting.

The auditor's reports issued by our Office, as well as by other legislative auditors across Canada reflect the extent to which government financial statements comply with these auditing, accounting and financial reporting standards. In situations where government financial statements do not comply with PSAB standards, legislative auditors consider the need to include a reservation in their opinion. These standards are designed to apply to the Summary Financial Statements of the Government.

For the year ended March 31, 2007, the Auditor's Report on the Summary Financial Statements included a reservation (third paragraph) for the non-consolidation on public school divisions' financial statements. The financial results of public schools were not consolidated because public schools currently have not issued audited financial statements on a GAAP basis. GAAP based financial reporting is expected to be implemented for public schools effective 2007/08.

- The reservation stated that the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined. (Public school divisions were added to the Reporting Entity of the Government of the Province of Manitoba commencing with the 2005/06 fiscal year).
- The opinion paragraph stated that except for the effects of the inability to consolidate the assets, liabilities and operating results of public school

## Understanding the Public Accounts

divisions, the Government of the Province of Manitoba prepared Summary Financial Statements that were in accordance with Canadian generally accepted accounting principles (for senior governments).

This reservation is expected to be removed in the 2007/08 fiscal year when it is anticipated that the Government will be able to consolidate the financial position and operating results of public school divisions in accordance with public sector accounting standards.



Continuing the Focus Towards the Summary Financial Statements



# Continuing the Focus Towards the Summary Financial Statements

Improving financial statement presentation and disclosure is an ongoing process. We have advocated for a considerable number of years for the full adoption of GAAP in the preparation of the Summary Financial Statements. The Government has committed to consolidate public school divisions' financial statements and prepare Summary Financial Statements fully in accordance with GAAP by 2007/08.

The significant improvements reflected in the Summary Financial Statements for the year ended March 31, 2007 were as follows:

- Further recognition of the Province's environmental liabilities (an additional \$20 million) with a corresponding charge to the accumulated deficit;
- Revision to the financial statement presentation of the Statement of
  Financial Position and related schedules to show sinking funds as financial
  assets (portfolio investments) and reflect borrowings as one figure. That
  presentation is more in keeping with PSAB's reporting model and did not
  change the determination of Net Debt; and
- Adoption of the change in accounting standards related to accounting
  for the cost of tangible capital assets; capital funding from other levels of
  government is no longer netted against the cost of the asset but reported
  as revenue. As a result of this accounting policy change, an additional
  \$84 million in capital grant revenue was recognized in 2006/07.
- Five year comparative results are presented in Figure 3.

Figure 3

Summary Financial Statements Year Ended March 31								
	(\$ millions)							
	2007	2006 (restated)	2005*	2004*	2003*			
Actual summary annual (deficit) surplus	430	394	562	(579)	(184)			
Budgeted summary annual (deficit) surplus	148	198	(59)	(110)	(133)			
Net borrowings	(12,361)	(11,645)	(9,362)	(9,110)	(8,217)			
Public borrowing interest expense	1,354	1,327	1,279	1,296	1,449			
Change in net debt (increase)	117	167	459	(763)	(437)			

Source: Province of Manitoba Annual Reports for the years ended March 31, 2003 - 2007.

<sup>\*</sup> The results presented have not been restated to conform to changes in accounting policies which are reflected in the 2007 results. As such, the reported change in net debt would likely change. All of the restated figures were not available.

Over the past number of years we have reflected on the financial reporting practices of the Province in the context of the worldwide call for improved accountability and transparency. This year the Government continues to commit to focus public discussion solely on the Summary Financial Statements and to eliminate the need for published audited Special Purpose (Operating Fund) Financial Statements by 2007/08. This change also involves preparing quarterly summary financial statements at a later point thereafter.

Five jurisdictions, Nova Scotia, Ontario, Saskatchewan, Alberta and British Columbia prepare the Public Accounts in accordance with GAAP for senior governments. For the year ended March 31, 2007, Manitoba prepared its Summary Financial Statements in accordance with GAAP except for the non-consolidation of the financial statements of public school divisions. It is expected that with the availability of GAAP compliant financial statements from the school divisions in 2007/08, the Summary Financial Statements will include the consolidation of the school divisions' annual results and financial position.

We have been reporting to Manitobans for many years that the Summary Financial Statements are the financial statements that should be used to assess the Government's performance and the Province's financial position including its net debt position. The Special Purpose Financial Statements are not intended to be GAAP financial statements and do not include net debt of \$2.1 billion or the additional net annual surplus of \$109 million from the operations of crown organizations and government business enterprises (excluding the nets profits from Manitoba Lotteries Corporation and Manitoba Liquor Control Commission which are already reflected in the Special Purpose Financial Statements). The following sections are intended to assist readers in understanding the Summary Financial Statements.

## **Understanding the Summary Financial Statements**

We believe the keys<sup>2</sup> to understanding the Summary Financial Statements are:

- Governments are different than businesses and their financial reporting reflects that difference. A government's goal is to provide services through its programs and redistribute the Province's resources, not make a profit;
- All the crown organizations and government business enterprises comprising a government's reporting entity are included (see pages 88-90 of the Province of Manitoba's annual report<sup>3</sup>);

<sup>2</sup> Incorporates guidance from CICA Publication, "20 Questions About Government Financial Reporting, Federal, Provincial and Territorial Governments".

<sup>3</sup> http://www.gov.mb.ca/finance/financialreports.html

- Government business enterprises include: Manitoba Hydro-Electric Board, Manitoba Lotteries Corporation, Manitoba Liquor Control Commission, Manitoba Public Insurance Corporation, Workers Compensation Board, Manitoba Hazardous Waste Management Corporation, Leaf Rapids Town Properties Ltd., and Manitoba Product Stewardship Corporation.
- Government business enterprises are reflected in the summary financial statements on the modified equity basis, which means their accounting policies are not adjusted to conform to those of the government. Their net assets are reflected as an investment on the government's summary statement of financial position, and their net income is presented as a separate line item in the government's statement of annual results.
- The financial statement items of all other organizations in the government reporting entity are consolidated on a line by line basis, adding together all corresponding assets, liabilities, revenues and expenses, eliminating all inter-entity transactions and balances. Where required, adjustments are made to conform to the accounting policies used to prepare the summary financial statements which are based on GAAP for senior governments as contained in the *Public Sector Accounting Handbook*.
- A critical component of the financial statements is net debt, which is total liabilities less financial assets (financial assets are assets which can be used to pay off liabilities) (see page 53 of the Province's 2006/07 annual report).
   Net debt represents the future revenue requirements needed to pay for existing liabilities (past transactions and events);
- Accumulated deficit reflects the government's entire net economic shortfall, and represents the extent to which the government's liabilities exceed its assets, and the extent to which the government has to borrow to finance its annual operating deficits;
- Non-financial assets such as tangible capital assets (such as infrastructure, land, buildings) are used to provide services and cannot be used to pay off liabilities unless they are sold;
- Borrowings on Schedule 5 (see page 85 of the Province's 2006/07 annual report) refer to the total gross debt issued by the government (past and present);
- Total liabilities represent all the amounts owed by the government including amounts owed to employees for future benefits such as pensions and retirement allowances (severance pay);
- Government's annual surplus (see page 54 of the Province's 2006/07 annual report) indicates whether a government has raised sufficient revenues to pay for its expenses for that fiscal year. The expenses reported include

the cost of using existing and new capital assets which is referred to as amortization expense. If revenues equal expenses then a government is considered to have maintained its net assets (there is no increase in the accumulated deficit);

- Government's change in net debt (see page 56 of the Province's 2006/07 annual report) reflects whether the government's revenues were sufficient to cover their expenses and other spending such as the funds spent on the purchase or construction of tangible capital assets. The level of net capital spending may also be compared to the planned (budgeted) level of capital spending. An increase in net debt indicates that more future revenues will be required to pay for past transactions;
- Government's cash flows are reported on the Statement of Cash Flow (see page 57 of the Province's annual report) and identify the change in cash (and cash equivalents) and the source and use of cash through operating, investing and financing activities. This statement also highlights net capital spending and how cash was used to acquire capital assets;
- Budgeted and actual figures should be shown on the Statements of Revenue and Expense (Operations) and Change in Net Debt. However, currently, only the Special Purpose Financial Statements disclose detailed budgeted figures on the Schedule of Operating Fund Revenue and Expense (Schedule 8, see page 136 of the Province's 2006/07 annual report); the Summary Financial Statements disclose only net revenues by crown organization (Schedule 9, see page 91 of the Province's 2006/07 annual report). The preparation of a summary budget for 2007/08 will provide the necessary information to rectify this.
- The budget is a guide to the government's public policy decisions. It
  establishes the estimates of revenues and expenses as well as capital
  spending for each fiscal year. The budget reflects the government's
  financing requirements to support both operating and capital spending.
  It is also used to determine the extent of new borrowings needed and
  influences the setting of tax rates and users' fees;
- Government's budget is also an important accountability document and can be used as a benchmark against which performance is measured.
   Planned spending can be compared with actual spending;
- Government's significant accounting policies are disclosed in note 1 to the Summary Financial Statements for the year ended March 31, 2007. These accounting policies are integral to understanding how the government accounts for transactions and events and should indicate whether they are set in accordance with Canadian generally accepted accounting principles (GAAP);

- In order to have meaningful comparisons between planned and actual
  results, the same accounting policies must be used to reflect the prior
  year's and the current year's annual results. The prior's year annual results
  along with the current year's results must be restated to reflect the effects
  of any change in accounting policy;
- The Auditor's Report states whether the accounting policies have been applied on a consistent basis with that of the preceding year. A consistent basis means that where there have been changes in accounting policies, the prior years' as well as the current year's results have been restated to show the reader the impact of the changes; and
- Other notes to the Summary Financial Statements also provide disclosure and explanations regarding significant transactions and events in the reporting period as well as information about contingent liabilities and contractual obligations, related party transactions and subsequent events. Note disclosure is not a substitute for proper accounting treatment which means that transactions must be reflected in the Statements of Financial Position and Revenue and Expense (Operations) unless only note disclosure is required under GAAP.

## **Financial Condition**

In order to assess the government's financial condition, the Canadian Institute of Chartered Accountants selected a set of financial indicators which provide an analysis of the state of a government's management of their finances.

The Canadian Institute of Chartered Accountants Research Report on Indicators of Government Financial Condition [1997] (Research Report) also indicates that the Summary Financial Statements should be used to determine the financial indicators. The Research Report defines the financial condition of a government as follows:

"The financial condition of the government is its financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:

- Sustainability: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.
- Flexibility: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.

 Vulnerability: the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international."

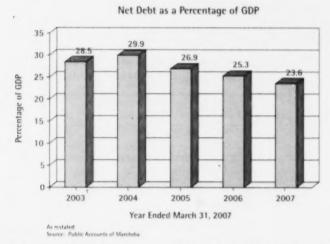
Financial condition focuses on the finances of the government. It is not intended to assess the financial condition of the economy, or overall government performance or current fiscal policy or government solvency. The financial condition of a government needs to be assessed relative to the economy, and benchmarks (targets) should be used to measure the government's relative financial condition as well as assess long term trends.

The Public Sector Accounting Standards Board (PSAB) is currently developing a new statement of recommended practice related to Indicators of Government Financial Condition, and in its recent public exposure draft defines the government financial condition as "a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others".

The Minister of Finance's message on the year end review on pages 8–11 of the 2006/07 annual report includes a discussion of the following financial indicators related to the Summary Financial Statements. We reviewed the numerical accuracy of the Department of Finance's calculations of these financial indicators and ensured the financial data used in the calculations were derived from the audited Summary Financial Statements. These financial indicators were recommended in the Research Report, with the exception of Net Debt per Capita, as valid indicators of Sustainability, Flexibility and Vulnerability. The PSAB exposure draft also supports the use of per capita information such as Net Debt per Capita.

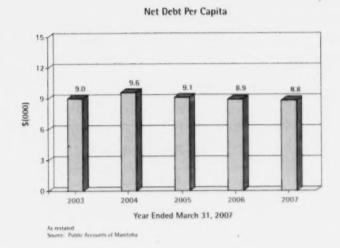
#### Sustainability Indicators

Figure 4



• (Net) Debt-to-GDP ratio measures the level of net debt (total liabilities less financial assets) a government carries as percentage of its Gross Domestic Product. An increasing Debt-to-GDP ratio means that the debt burden on taxpayers is growing and more of the government's future revenues will be required to repay that debt. The Province's (Net) Debt-to-GDP ratio over the five year period presented, on a restated basis, reached its highest point in 2004. From 2004 to 2006, the indicator dropped farther and dropped still farther in 2007. In comparison, the Federal Government's target for this ratio was set in its 2006 Budget at 25% by 2014/15 (revised in the October, 2007 Economic Statement to 2011/12). Net Debt-to-GDP is included in the Province's 2006/07 annual report on page 25.

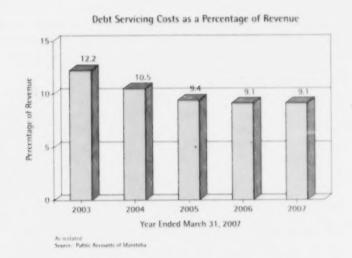
Figure 5



 Net Debt Per Capita is also included in the Province's 2006/07 annual report on page 25. A drop in this ratio indicates a decrease in the debt burden on a per person basis.

#### **Flexibility Indicators**

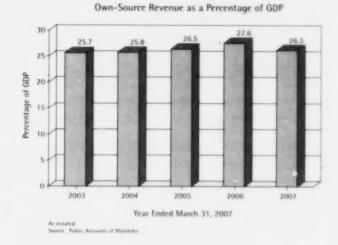
Figure 6



Debt service charges as a percentage of revenue show the percentage
of revenue that is used to service the debt and also show the impact of

increasing a government's net debt. Higher net debt puts pressure on interest rates, and higher interest rates result in increased debt servicing costs which reduce the revenue available to spend on programs. The target used for the Debt Servicing Charges-to-Revenues ratio of the Federal Government was 16.0% according to the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. Debt service charges as a percentage of revenue are shown in the Province's 2006/07 annual report on page 26.

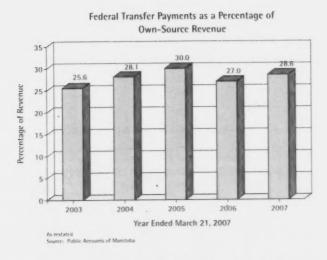
Figure 7



 Own Source Revenue-to-GDP shows the impact of raising government revenue as a percentage of income in the economy. A steady increase in this ratio is a warning to a government in terms of its ability to increase these revenues in the future. The Federal Government's target was 16.0% according to the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. This is shown in the Province's 2006/07 annual report on page 28.

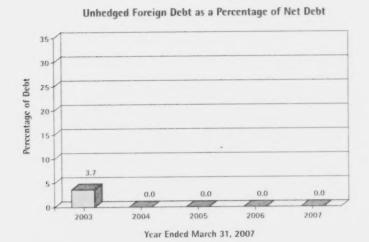
#### **Vulnerability Indicators**

Figure 8



 Government-to-Government Transfers-to-Own Source Revenue is, in a provincial government context, the dependence of a government on federal government transfers (revenue) and is shown in the Province's 2006/07 annual report on page 28.

Figure 9



 Foreign Currency Debt-to-Net Government Debt [Unhedged Foreign Debt as a Percentage of Net Debt] is the debt payable in foreign currencies as a percentage of net government debt. It is an indicator of the potential impact of foreign currency exchange rates of the Canadian dollar relative to foreign currencies which can increase debt servicing costs and the cost of repaying the debt. The Province indicates that for the past four years they have fully hedged (eliminated) this risk through their activities. This financial indicator is shown in the Province's 2006/07 annual report on page 24 and states, "The nominal amount of foreign debt is \$6,286 million (2006 - \$5,672)."

#### Recommendation

The reporting of financial indicators in the Province's annual report could be improved if the Government sets out targets (expected results) for these indicators in its fiscal plan for the year (budget), and reports back against its actual performance as compared to target in the annual report.

"Opportunities to assess financial stewardship of resources are enhanced when a government establishes targets for indicators of financial condition in its planning documents." (PSAB Exposure Draft, Statement of Principles on Indicators of Government Financial Condition)

We recommend that the Government set targets for its financial indicators in its fiscal planning document, and report back against its actual performance as compared to target in its annual report for the fiscal year. (First recommended in 2007)

## Significant Improvements in Financial Statement Reporting in the 2006/07 Public Accounts

#### Accounting for Government Transfers Provided to Acquire Capital Assets

Public sector accounting standards changed during the year so that government transfers for capital, which in Manitoba's case are generally provided by the Federal Government, cannot be used to reduce the cost of the capital asset recorded in the financial statements. This netting of the capital transfers against the cost of the assets had been the accounting policy in prior years. The Government changed its accounting policy this year to reflect 2006/07 capital government transfers as revenue but did not restate the prior years' accounting. This change in accounting policy resulted in an additional \$84 million in revenue being reflected in the financial statements for 2006/07. However this revenue will be offset by increased annual amortization expense over the useful life of the related capital assets, as a result of the higher recorded cost of the related capital assets, since the capital grants were not netted against the cost.

#### Reporting of Financial Assets and Liabilities

This year the Government presented its sinking funds with other financial assets (portfolio investments) instead of reducing the balance of borrowings reported under the liabilities section of the Statement of Financial Position (balance sheet). Schedule five, Borrowings, was also revised to reflect these changes and to show gross borrowings less the debt borrowed on behalf of Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation. This financial statement presentation is more in keeping with the government reporting model adopted by the Public Sector Accounting Board. As a result, both the total financial assets and liabilities are greater than previously reported but the reported Net Debt is unaffected.

#### **Public Accounts - Recommendations**

#### **Recommendations Implemented**

#### Summary Budget

Over the past number of years we have put forth that the Summary Financial Statements and therefore, the Summary Budget are the Government's foremost accountability documents.

Without a detailed summary budget, the Legislative Assembly is not given the necessary depth of financial information upon which to fully discuss the planned use of public funds. As well, it is the comparison of the Summary Financial Statements' actual results with that detailed summary budget which permits a thorough analysis of the Province's financial position and operating results compared with planned results, and provides the ability to measure the Government's management of public resources.

The Government has prepared a summary budget for the 2007/08 fiscal year based on the budgets of all entities included in the Government Reporting Entity. It was presented on April 4, 2007 and is expected to have the appropriate level of detail needed to compare it with the actual results in the 2007/08 Summary Financial Statements.

Canada and five of the other Provinces prepare summary budgets that are tabled in Parliament/Legislatures. The governments of Canada, British Columbia, Alberta, Ontario, Quebec and New Brunswick have already made the summary budget their primary budget. These summary budgets are prepared on the same basis as the Summary Financial Statements of those governments.

This summary budget incorporates the impact of the budgets of all the crown organizations included in the Government Reporting Entity. Last year, we recommended that the Government publicly report on its progress toward meeting

its summary budgeting commitment. The Government has met that commitment with the presentation of a summary budget for the 2007/08 fiscal year.

#### Amendment to The Financial Administration Act

We have previously recommended that the Government consider amending The Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) financial statements.

The Financial Administration Act was amended in October 2007 to eliminate this requirement. We therefore consider this recommendation to be implemented.

#### Recommendations Not Yet Fully Implemented

Figure 10 is a summary of OAG recommendations.not yet fully implemented by the Department of Finance and/or the Government of Manitoba, indicating the year in which the recommendation was first made and the page reference to this report.

Figure 10

	Recommendations Not Yet Fully Implemented				
Year of Recommendation	Recommendation				
2007 (Recommendation #1)	That the Government set targets for its financial indicators in its fiscal planning document, and report back against its actual performance as compared to target in its annual report for the fiscal year. (page 33)				
2006 (Recommendation #17)	That the Province of Manitoba further assist departments to improve performance measurement and reporting through guidance based on the CICA Statement of Recommended Practice on Public Performance Reporting. (page 43)				
2006 (Recommendation #15)	That the Government develop a plan to discharge its loans from and funding commitments to government organizations for pension liabilities. (page 63)				
2004 (Recommendation #16)	That the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects PSAB's Statement of Recommended Practice on Financial Statement Discussion and Analysis and PSAB's Statement of Recommended Practice on Public Performance Reporting. (page 43)				
2004 (Recommendation #14)	That the Government develop a plan to discharge its remaining obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities. (page 62)				

	Recommendations Not Yet Fully Implemented				
Year of Recommendation	Recommendation				
2004 (Recommendation #13)	That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of The Balanced Budget, Debt Repayment, and Taxpayer Accountability Act or under the amended legislation and communicate these criteria to the Members of the Legislative Assembly. (page 38)				
2003 (Recommendation #4)	That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP. (page 38)				
2002	That Internal Audit and Consulting Services revisit their role and expand their work on an annual basis to systematically, according to a documented plan, review and test SAP controls in the departments and consider providing assurance as to the effectiveness of internals controls within the provincial government.				
(Updated in 2005 and 2006)	That Internal Auditing and Consulting Services revisit their role and expand their work on an annual basis to test controls over financial reporting, including computer application controls in SAP and other significant information systems.				
(Updated in 2007) (Recommendation #5)	That Internal Auditing and Consulting Services fully implement their plato expand their work on an annual basis to test controls over financial reporting, including computer application controls in SAP and other significant information systems. (page 40)				
2001 (Updated in 2005) (Recommendation #2)	That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable. (page 39)				
1999	That a well thought out and effective Business Continuity Plan, one component being disaster recovery having been completed, be developed, documented and tested regularly to minimize the risk of disruptions caused by unforeseen events.				
(Updated in 2006 and	Disaster Recovery/Business Continuity Plans:				
2007) (Recommendation #8)	a) That the Comptroller's Office in collaboration with the Office of the CIO ensure that business impact analyses be conducted on a coordinated basis by Departments to help develop suitable plans to recover computer processing capabilities in response to adverse event that disrupt computer processing services or facilities. (page 42)				
	b) That the business impact analyses be used on a coordinated basis to develop suitable plans to continue critical business functions in response to adverse events that disrupt business operations. (page 42)				
	c) That disaster recovery and business continuity plans be documented and tested to ensure their effectiveness. (page 42)				

	Recommendations Not Yet Fully Implemented				
Year of Recommendation	Recommendation				
1999 .	That the Comptroller's Office, through a monitoring of departmental accountability, ensure that departments review the incompatible functions on a regular basis and that departments maintain documentation on compensating controls should incompatibilities exist. The role matrix should be updated, reconcile to incompatibilities noted on MICT's intranet site and should document why a combination of functions/roles is incompatible so that departments can understand why they are incompatible and better able them to document the required compensating controls.				
(Updated in 2006) (Recommendation #9)	That the Comptroller's Office in collaboration with the Office of the CIO review the use of security software tools to better manage the risks involving users with incompatible duties. (page 41)				
1999 (Updated in 2006 and	That Manager's Desktop be expanded to encompass all managers, additional functionality be provided, the use of it encouraged and that management tasks be removed from administrative staff as soon as possible and moved back to departmental managers where they appropriately belong. In addition, we continue to recommend the Government set a target date for the implementation of this recommendation once the assessments are completed on the above initiatives and the reports released.  That the Comptroller's Office, through a monitoring of the Departm accountability, ensure that all departments' delegated authorities a properly represented in SAP or that differences from these delegate authorities are approved and documented.				
2007)	Access Rights to SAP:				
(Recommendation #6)	a) That managers be given purchasing approval rights in SAP in accordance with Department Delegation of Financial Signing Authority Charts. (page 40)				
	b) That the system of Department Delegation of Financial Signing Authority Charts, including specimen signature cards, be reviewed for improving, possibly through automation, the maintenance and availability of the documentation. (page 40)				
	c) That the Comptroller's Office monitors the purchasing approval rights of users in SAP to ensure that such rights are not excessive and comply with the requirements of the Financial Administration Manua (page 41)				

### **Developing New Balanced Budget Legislation**

Over the past number of years, we have recommended that the Government consider amending Balanced Budget Legislation to use the Summary Financial Statements instead of the Special Purpose Financial Statements. We recommended that because the Summary Financial Statements are general purpose financial statements prepared using GAAP as the basis of accounting (with the exception of the non-consolidation of public schools at present). The Special Purpose Financial Statements are not intended to be GAAP financial statements; one material GAAP exception to those financial statements has been the exclusion of the pension liability and, on average, approximately \$200 million from annual operating expenses (the increase in the pension liability).

In addition, in 2003/04, the Government invoked section 3(2) of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act in 2003/04 to exclude emergency expenses from the determination of whether there was a positive or negative balance in accordance with the legislation. We found that there was an absence of suitable, generally accepted criteria for use in determining an amount for emergency expenditures as called for by the Act. As a result, the amount, although declared in accordance with the provisions of the Act, was not susceptible to audit verification and no opinion was expressed on the amount of the emergency expenditures (scope limitation). Consequently, we recommended that the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of The Balanced Budget, Debt Repayment, and Taxpayer Accountability Act or under the amended legislation and communicate these criteria to the Members of the Legislative Assembly.

It is our understanding that the Government as part of their Summary Reporting project will be introducing new balanced budget legislation and it will affect financial reporting for the 2007/08 fiscal year. Over the next year, we will review the impact of the new balanced budget legislation to determine whether these past recommendations have been addressed.

We continue to recommend that consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP. (First recommended in 2003)

We recommend that the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of The Balanced Budget, Debt Repayment, and Taxpayer Accountability Act or under the amended

legislation and communicate these criteria to the Members of the Legislative Assembly. (First recommended in 2004)

#### **Quarterly Reporting**

We believe that the quarterly financial report should be prepared using the same accounting principles as the Summary Financial Statements, as these provide the most complete and accurate indication of the Province's fiscal position. Our recommendation on quarterly reporting reflects the high priority issue of encouraging the Government to adopt the GAAP Framework in its quarterly reports.

The Government has committed to prepare quarterly reports on a summary basis as soon as is practicable after the 2007/08 fiscal year. To that end, last year, the Government released the Report on the Summary Financial Reporting Project (Report) which states that a staging plan has been developed which would result in quarterly financial reporting on a Summary GAAP basis commencing in the third quarter of the 2009/10 fiscal year. The Report also indicates that in the interim, the Government anticipates that its quarterly reports will increasingly reflect additional elements of GAAP and incorporate information from more of the crown organizations in the Reporting Entity. As well, systems and processes will be developed to gather the necessary information, which in the 2008 and 2009 fiscal years will be used for internal financial reporting purposes.

We recommend that the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable. (First recommended in 2001)

#### Information Systems

#### Internal Audit involvement in testing systems controls

Last year we reported that Internal Audit and Consulting Services (IACS) have not been generally involved in activities such as the following:

- Identifying, documenting, and testing the relevant application controls for systems significant to financial reporting, such as the SAP system; and
- Identifying, assessing, and regularly testing relevant general computer controls.

We noted in 2006/07 IACS changed its strategic direction to incorporate those types of activities. They began to hire staff to evaluate how they could conduct SAP systems testing including the testing of general computer controls. We support IACS in its efforts to expand its capacity to test systems controls.

As a result we make the following modified recommendation:

We recommend that Internal Auditing and Consulting Services fully implement their plan to expand their work on an annual basis to test controls over financial reporting, including computer application controls in SAP and other significant information systems. (First recommended in 2002 - modified in 2005, 2006 and 2007)

In prior years we have made a number of recommendations on how the government can improve its management and internal controls associated with its significant information systems (SAP, the GENTAX taxation system, and the Social Allowance Management Information Network [SAMIN]). We encourage the government to ensure that these long standing recommendations are implemented as soon as possible.

#### Access Rights to SAP

In prior years we have recommended that access rights to the SAP system should be consistent with the business authority which end users have to enter into transactions, particularly as it relates to users spending authority to initiate procurement contracts and purchases. We continue to encourage departments to review purchasing approval rights of SAP users, automate and update delegation of financial signing authority charts, and encourage the Comptroller's Office to monitor this to mitigate the risk of unauthorized transactions and purchases which may result from SAP users having system access rights which exceed their business authority.

We recommend that managers be given purchasing approval rights in SAP in accordance with Department Delegation of Financial Signing Authority Charts. (First recommended in 1999 - modified in 2006)

We recommend that the system of Department Delegation of Financial Signing Authority Charts, including specimen signature cards, be reviewed for improving, possibly through automation, the maintenance and availability of the documentation. (First recommended in 1999 – modified in 2006)

We recommend that the Comptroller's Office monitors the purchasing approval rights of users in SAP to ensure that such rights are not excessive and comply with the requirements of the Financial Administration Manual. (First recommended in 1999 - modified in 2006)

#### Mitigate Risk Resulting From Incompatible Duties

In prior years we have noted many instances where users have been assigned incompatible roles in SAP which results in a lack of proper internal control. An example of an incompatible role assignment would be assigning a user with purchasing approval rights in SAP, the ability to initiate a payment for goods. Spending and Payment authority should be segregated to ensure the integrity of procurement transactions.

As a result we have recommended that Departments, the Comptroller's Office and ICT Services Manitoba be more proactive with respect to managing user access in SAP so that users are not assigned incompatible functions. An emerging trend is the use of a software security tool to assist in the management and monitoring of incompatible functions in SAP. Such a tool can have the following benefits:

- Identify segregation of duty issues before granting access;
- Reduce security administration;
- Provide a common platform for business, security and audit functions regarding segregation of duties;
- Enable mitigating controls, including monitoring and follow-up.

As a result, we continue to recommend:

That the Comptroller's Office in collaboration with the Office of the CIO review the use of security software tools to better manage the risks involving users with incompatible duties. (First recommended in 1999 - modified in 2006)

#### Disaster Recovery/Business Continuity Plans

The Province has significant information systems for which it lacks plans to maintain or recover computer processing services in response to adverse events that disrupt computer processing services or facilities (disaster recovery plans). In particular, the SAMIN system is not covered under the Disaster Recovery Utility (DRUT) option with the mainframe computer service provider, even though this option is used for some other systems in government.

For the Taxation system, a test environment is available as a second site; however, the system has not been fully tested. To date, there have only been informal discussions with the service provider and software vendor on available options.

The computer servers for the SAP system are divided between two buildings with a communication link that allows a copy of the SAP database to be updated at the secondary computer centre every few hours. Several hours of data can be lost if the primary servers become unavailable. This level of disaster recovery might not meet business needs.

The government programs supported by the SAMIN and Taxation systems lack plans to carry on critical business functions in response to adverse events or disruptions to business operations (business continuity plans). Also, there is no current documented and tested business continuity plan regarding operations supporting the SAP system.

As well, there are no business impact analyses that assess the risks and acceptable recovery periods related to these government programs and the operation of the SAP system.

We previously recommended that a comprehensive business continuity plan be put in place by the Province covering the SAP application. Without a centrally coordinated effort, limited resources may not be expended in the most effective and economical manner for the government as a whole. Without appropriate business impact analyses, it is difficult to adequately assess the effectiveness of plans.

As a result, we continue to recommend:

That the Comptroller's Office in collaboration with the Office of the CIO ensure that business impact analyses be conducted on a coordinated basis by Departments to help develop suitable plans to recover computer processing capabilities in response to adverse events that disrupt computer processing services or facilities. (First recommended in 1999 - modified in 2006)

That the business impact analyses be used on a coordinated basis to develop suitable plans to continue critical business functions in response to adverse events that disrupt business operations. (First recommended in 1999 - modified in 2006)

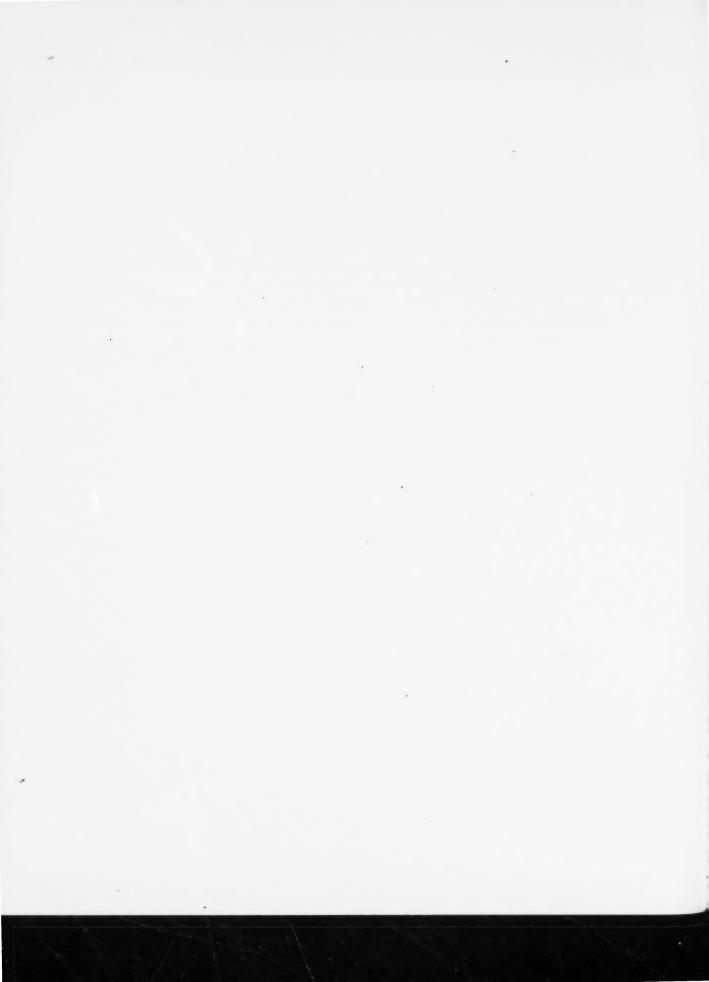
That disaster recovery and business continuity plans be documented and tested to ensure their effectiveness. (First recommended in 1999 - modified in 2006)

#### **Annual Reports**

In our prior year's report, we recommended that the Government revise the financial statement discussion and analysis and performance reporting information included in the Province's annual report and the departmental annual reports. This year we found that the Government had not changed significantly the nature of the information presented in its annual report or in the departmental annual reports. Please refer to our 2006 report for our detailed review. We understand that the Government intends to review the type of discussion and analysis and performance reporting information included in the Province's annual report in conjunction with the implementation of summary financial reporting in 2007/08. We support that initiative and therefore continue to recommend the following:

We recommend that the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects PSAB's Statement of Recommended Practice on Financial Statement Discussion and Analysis and PSAB's Statement of Recommended Practice on Public Performance Reporting. (First recommended in 2004)

We recommend that the Province of Manitoba further assist departments to improve performance measurement and reporting through guidance based on the CICA Statement of Recommended Practice on Public Performance Reporting. (First recommended in 2006)



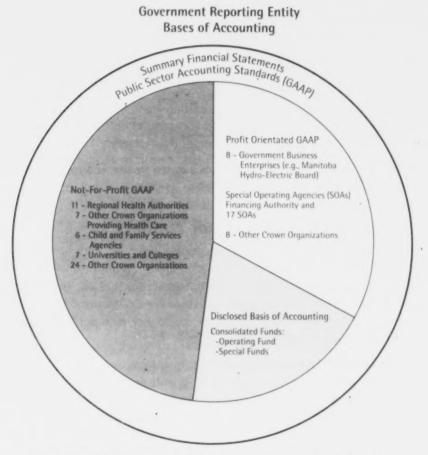
Entities Included in the Summary Financial Statements



# Entities Included in the Summary Financial Statements

**Government Reporting Entity** 

Figure 11



GAAP - Generally accepted accounting principles are set by the Canadian Institute of Chartered Accountants.

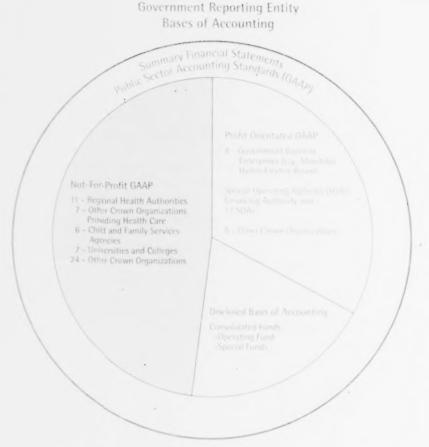
38 Public school divisions using Public Sector Accounting Standards (GAAP) will be consolidated in 2007/08.

The above diagram reflects the different bases of accounting used by the crown organizations comprising the Manitoba Government's Reporting Entity as reflected in the Summary Financial Statements for the year ended March 31, 2007. The



## Entities Included in the Summary Financial Statements

Figure 11



Summary Financial Statements incorporate the financial statements of all of these organizations.

#### Who Conducts the Audits

The Auditor General's Office audits many of the crown organizations and one of the government business enterprises included in the Government Reporting Entity and the others are audited by private sector auditors appointed by the Government or the crown organization itself. Based on our involvement with the private sector auditors' work, we have been placing reliance on their audit work and opinions in forming the audit opinion on the Summary Financial Statements. As discussed below The Auditor General Act also provides us with specific authority over the appointed auditors of crown organizations. We obtain written representations from the private sector auditors regarding their independence and compliance with generally accepted auditing standards. We also request or perform additional auditing procedures, as we consider necessary, to fulfill our broader reporting responsibilities to the Legislative Assembly.

**Appendix A** lists those government entities audited by the Auditor General's Office and those audited by private sector auditors.

### Relationship with Private Sector Auditors

#### The Auditor General Act

The Auditor General, as the auditor of the Public Accounts of the Government of the Province of Manitoba, reports on whether the Government's Summary Financial Statements are fairly presented in accordance with public sector accounting standards for senior governments.

As many of the financial statements of government entities included in the Government Reporting Entity are audited by private sector auditors, the Auditor General must also be able to rely on the work of these external auditors. The Auditor General Act (Act) clarified the Auditor General's authority over the external auditors and the responsibilities of the external auditors to the Auditor General as auditors of government entities. Section 13 of the Act authorizes the Auditor General to rely on the report of an external auditor of a government entity in order to fulfill the Auditor General's responsibilities as the auditor of the government accounts. Professional auditing standards, namely Section 6930 of the CICA Assurance Handbook, permit reliance on the work of another auditor provided that the Auditor General is satisfied that the audit conducted has been properly planned, executed, completed and reported.

In addition, as we reported previously, the Act was proclaimed in early May 2002, and since then we have expanded our role in the financial statement audits of government entities audited by the private sector auditors. Our expanded role has encompassed a review of the planning, execution and completion stages of the audits performed by these auditors.

Excerpts from the Act are provided below:

#### **Planning**

The Auditor General may require the external auditor of government entities to provide the Auditor General with a description of the proposed scope of the audit before the audit is begun. The Auditor General may then require changes to be made in the scope of the audit. [Section 12(1) of the Act]

#### Execution

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor conduct additional examinations relating to the financial statements. [Section 12(2) (b) of the Act]

#### Completion

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor to provide the Auditor General with a copy of the proposed audit opinion, the draft financial statements, and any recommendations arising out of the audit of the financial statements. [Section 12(2) (a) of the Act]

The Auditor General may require an external auditor to give the Auditor General a copy of the audit working papers. [Section 12(3) of the Act]

#### Reporting

As soon as an audit is completed, an external auditor must give the Auditor General a copy of the audit opinion on the financial statements of a government organization and any recommendations arising out of the audit of the financial statements. [Section 12(4) of the Act]

#### Report to the Legislative Assembly

The Auditor General has the authority to report to the Legislative Assembly on any matter he or she may wish to draw attention to and make recommendations regarding any audit conducted by an external auditor under Section 12.

[Section 10(3) of the Act]

#### Reliance On The Work Of Private Sector Auditors

In the 2002/03 audit cycle, we met with the Chief Executive Officers and the Chief Financial Officers of crown organizations included in the Government Reporting Entity, as well as representatives from the private sector audit firms conducting the financial statement audits of these entities. At these meetings we clarified the role our Office would be taking in these audits, and set out our specific expectations regarding required correspondence, communications and time lines.

For year ended March 31, 2007, the Office of the Auditor General continued to issue letters to the external auditors requiring them to comply with Sections 12(1), 12(2) and 12(4) of the Act. Specifically, the external auditors were to provide to our Office, draft audit plans before the commencement of the audit field work and draft audit opinions and financial statements prior to finalizing the audit. The auditors were also directed to provide signed audit opinions and management letters.

## Review of Draft Planning Memoranda, Financial Statements and Auditors' Reports

We received and reviewed 68 draft planning memoranda from private sector auditors; we recommended changes on one of these plans.

We also received and reviewed 68 draft financial statements and auditors' reports. We provided recommendations on 26 of the draft financial statements related to financial statement presentation and note disclosure. Of the draft financial statements on which we made recommendations, 24 draft financial statements were amended in 2007. With respect to the other 2 draft financial statements, some of the changes we recommended were deferred until next year.

We identified no recommendations on 42 of the draft financial statements.

In accordance with our annual and cyclical review schedule, we reviewed 27 of the external auditors' working paper files including the audit working paper files for all of the large government business enterprises.

We continued to communicate with the external auditors at each stage of the overview.

As a result of our reliance process regarding crown organizations' financial statement audits, we continued our involvement with the audit processes of crowns including attendance at Board and Audit Committee meetings. Through our review of the draft financial statements of crown organizations prior to finalization, we also continued to contribute to improved public sector financial reporting. Our impact on their financial statements included clearer and expanded note disclosure and improved asset and liability classification and description.

Furthermore, in the case of our overview work with respect to Special Operating Agencies' financial statement audits, we provided assistance which improved the consistency of the financial statement presentation and disclosure by these organizations. As well, that work also contributed to the improved consistency of the financial reporting by the Special Operating Agencies Financing Authority.

### **Management Letters Issues**

On an annual basis we review the management letters issued within the Government Reporting Entity. These audits are conducted by us or by private sector accounting firms with overviews of the external audits performed by us.

Management Letters deal with matters that come to the attention of an auditor during the course of a financial statement audit. The matters communicated do not necessarily include all those matters which a more extensive or special examination might uncover. The objective of a financial statement audit is to express an opinion on the financial statements of an entity based on the audit procedures performed. A financial statement audit is not designed to identify matters to communicate and may not identify all such matters. Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting error and fraud.

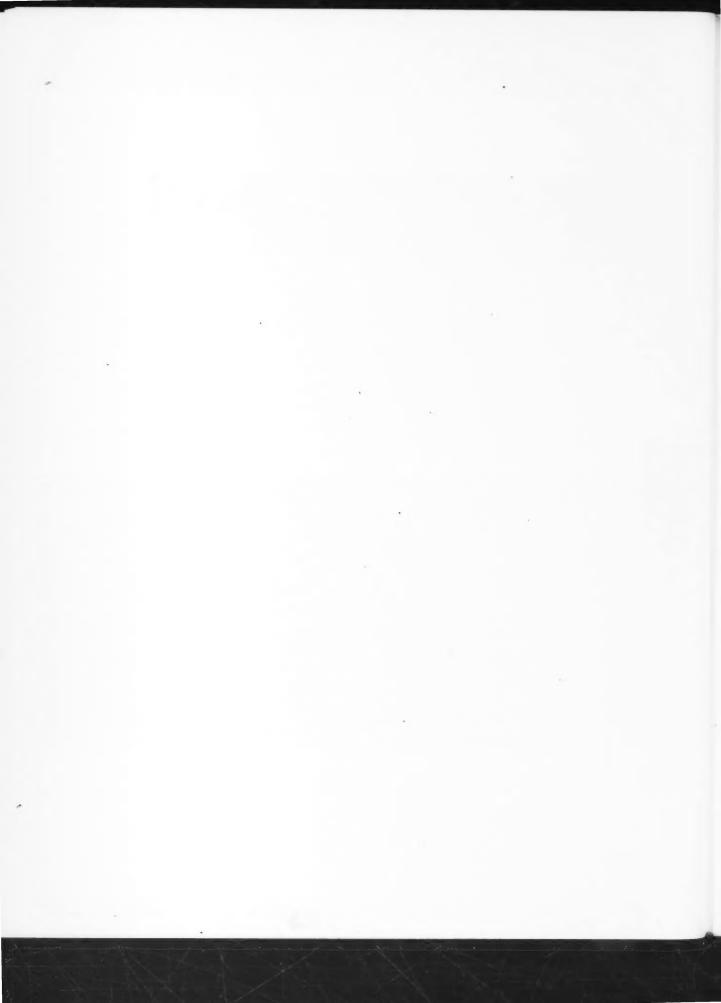
We reviewed 89 organizations in the Government Reporting Entity (see Figure 12). There were 41 Management Letters issued. Management Letters were not issued for 48 entities. For these entities, it was the respective auditors' opinion that no significant items came to their attention during the course of the financial statement audit that should be brought to the attention of management, and/or their Board/Audit Committee.

In the event that management does not appropriately address the concerns that were raised in the management letters, we would provide the Legislature with further details on these matters. We would also report any matters of such significance that they warrant attention by the Legislature. For the 2006/07 fiscal year, there are no such items that require specific reporting.

Figure 12

Summary of Management Letters Issued in the Government Reporting Entity							
	Crown Organizations	Government Business Enterprises	Special Operating Agencies	Total			
Management letter issued	25	6	10	41			
No management letter issued	39	2	7	48			
Total	64	8	. 17	89			

Future Handbook Sections
Affecting the Public Accounts
and Related Impacts



## Future Handbook Sections Affecting the Public Accounts and Related Impacts

### **Public Sector Accounting Board**

The Canadian Institute of Chartered Accountants (CICA) sets out Generally Accepted Accounting Principals (GAAP) for entities in Canada. The recommendations and guidance on accounting for businesses and not-for-profit entities are detailed in the CICA Accounting Handbook.

However, there are unique accounting issues encountered in the public sector that are different from the issues encountered in the private sector. The CICA recognized the unique characteristics of accounting in the public sector and established the Public Sector Accounting Board (PSAB) to issue recommendations and guidance regarding GAAP in the public sector. These recommendations and guidance strengthen accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards. PSAB recommendations and guidance are detailed in the *PSAB Handbook*.

PSAB defines the public sector to include federal, provincial, territorial and local governments, government organizations, government partnerships and school boards.

The public sector reported on by the Office of the Auditor General in Manitoba is comprised of the Summary Financial Statements of the Province of Manitoba and the government organizations consolidated in these statements. This is described as the Government Reporting Entity.

PSAB recommendations directly apply to the Summary Financial Statements of the Government of Manitoba. The Auditor's Report issued by the Office of the Auditor . General in Manitoba on the Summary Financial Statements reflects the extent to which government financial statements comply with PSAB standards.

Our Office and private sector auditors report on the financial statements of the government organizations making up the Government Reporting Entity. These government organizations may base their accounting on the *PSAB Handbook* or the *CICA Accounting Handbook* depending on the nature of the organization. Government business-type organizations and government not-for-profit organizations adhere to the recommendations in *CICA Accounting Handbook*. Other government organizations base the accounting policies on those that most appropriately reflect to their objectives and circumstances - based on the accounting recommendations of PSAB or on the recommendations in CICA Accounting Handbook. Where *PSAB Handbook* or *CICA Accounting Handbook* 

is silent on a particular issue, the entity obtains guidance from other acceptable sources.

PSAB is responsible for developing Generally Accepted Accounting Principles (GAAP) for the public sector. Accordingly, it has approved a number of projects to develop these standards.

After developing the draft standards, PSAB then issues exposure drafts on the proposed standards to be included in the Handbook. Comments on the proposed standards are requested from interested parties. Depending on the comments received the standards in the exposure drafts may be adopted, changed, reissued as another exposure draft or withdrawn. Once adopted the standards are included in the Handbooks and are then considered GAAP.

PSAB also issues research studies to provide guidance on specific areas.

## New and Future PSAB Handbook Sections Affecting Financial Reporting in the Public Accounts

The new Handbook sections, exposure drafts and other projects highlighted below have a potential affect on GAAP for the Public Accounts (Summary Financial Statements) of the Province of Manitoba.

#### **New PSAB Handbook Sections**

#### Segment Disclosures - Section PS 2700

In April 2006, PSAB issued a section establishing standards on how to define and disclose segments in the summary financial statements of federal, provincial and local governments.

Government summary financial statements are required to separately disclose the following information about each of a government's segments:

- the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;
- segment expense by major object or category;
- segment revenue by source and type;
- the aggregate of the net surplus/deficit of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable;

- the aggregate of the net surplus/deficit of government organizations accounted for under the modified equity basis in accordance with the transitional provisions of the Government Reporting Entity, Section PS 1300 for each segment, if applicable; and
- a reconciliation between the information disclosed for segments and the consolidated information in the summary financial statements.

The objectives of disclosing this information are to enhance the transparency of financial reporting and to help users of the financial statements:

- identify the resources allocated to support the major activities of the government;
- make more informed judgments about the government reporting entity and about its major activities;
- better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations; and
- better understand the performance of the segments and the government reporting entity.

A segment is a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of this Section.

The section is effective for fiscal years beginning on or after April 1, 2007, and will therefore impact the Summary Financial Statements for the 2007/08 fiscal year.

#### **PSAB Projects**

#### **Government Transfers**

The government transfers project was started in 2002 because there was disagreement in the public sector interpreting the government transfer section. The major areas of disagreement included:

- the appropriate accounting for multi-year funding provided by governments;
- the nature and extent of the authorization needed to be in place for a transfer to be recognized;
- the degree to which stipulations imposed by a transferring government should impact the timing of recognition of the transfer by both the transferor and recipient governments; and

 the appropriate accounting for capital transfers received under expensebased accounting.

#### As part of this project, PSAB has issued:

- a Statement of Principles (SOP) in 2002;
- an Associates Exposure Draft in June 2004;
- a second Associates Exposure Draft in June 2005;
- an Exposure Draft in June 2006; and
- a Re-Exposure Draft in March 2007.

#### The main features of the Re-Exposure Draft are as follows:

- Government transfers are transfers of monetary assets or tangible capital
  assets from a government to an individual, an organization or another
  government for which the government making the transfer does not:
  - (a) receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
  - (b) expect to be repaid in the future, as would be expected in a loan; or
  - (c) expect a direct financial return, as would be expected in an investment.
- A transferring government should recognize an expense when a transfer has been authorized and any eligibility criteria have been met.
- A recipient government should recognize revenue when a transfer has been authorized and any eligibility criteria have been met, except when and to the extent that the transfer stipulations create a liability in accordance with Liabilities, Section PS 3200.
- A liability for a recipient government can only arise when transfer stipulations establish both specific performance requirements not yet met as well as identifiable and enforceable return requirements.
- When a transfer is initially recognized as a liability by a recipient, revenue is recognized as the transfer stipulations are subsequently met.
- For a capital transfer recognized as a liability (by a recipient), transfer stipulations would require revenue recognition as the related asset is:
  - (a) acquired or developed; or
  - (b) used to provide goods or services to third parties over the specified period up to a maximum of its useful life.

## Future Handbook Sections Affecting the Public Accounts and Related Impacts

- A determination that a transfer is authorized at the financial statement date requires evidence of the:
  - (a) authority to enter into a transaction, which is conveyed through approved legislation, regulations or by-laws; and
  - (b) exercise of that authority by the financial statement date.

Proposed revised government transfers section and consequential amendments will apply to all governments for fiscal years beginning on or after January 1, 2009.

Status: Responses to the Exposure Draft have been received and are being evaluated.

As government transfers represent a significant expense as well as revenue source for the Province, the new handbook section when it is implemented will have a significant impact on the Summary Financial Statements.

A related entity level accounting issue is the accounting for school board debentures in the financial statements of public school divisions. The accounting implications are as follows:

#### School Board Debentures: Capital Grant Revenues or Loans Payable?

There are a number of cases where the Government has loaned money to a crown organization (or the organization has borrowed from a third party such as a bank) and then the Government has committed to provide funding over a number of years to the organization to enable them to repay the loan. When this type of transaction occurs, public sector accounting standards state that, in substance, a government has provided a grant (government transfer) to the organization. The government must record the full amount of the 'loan' as a grant expense and if the financing is from a third party, record the corresponding debt. Generally these transactions only occur for capital projects and in most cases the Government borrowed to finance the capital grant. Over the past number of years, the Government has reflected these transactions as capital grant expense in the Special Purpose (Operating Fund) Financial Statements.

Similarly, many of the organizations receiving the capital grants have reflected them as revenue (deferred contributions under not-for-profit accounting standards) and not as loans payable. That accounting treatment was considered appropriate as it reflected the substance of the transaction; the Government had borrowed to finance capital grants provided to crown organizations. Not-for-profit accounting standards (deferral method) require capital grants to be deferred and recorded as revenue over the useful life of the related asset.

However, under public sector accounting standards, there are no specific standards guiding how the recipient organizations should account for a loan which will be repaid with future government funding. Because there is no specific accounting standard, there is the potential for more variability as to how to the respective organizations who use PSAB GAAP as a basis for reporting will account for these transactions. For instance, public school divisions for the year ended June 30, 2007 have reflected the school division debentures which are to be repaid with future government funding as loans payable and not as capital grant revenue. School divisions have adopted PSAB GAAP as their reporting framework, and in the absence of guidance have used professional judgement to determine how to account for these debentures.

#### **Financial Instruments**

Derivative and other sophisticated non-traditional financial instruments are increasingly being used by governments to manage financial exposures such as interest rate exposures.

However, the *PSAB Handbook* does not have presentation, disclosure and measurement standards for sophisticated, non-traditional financial instruments. As a result, inconsistent recognition, measurement and disclosure practices have developed. There is concern that recorded and disclosed information on financial instruments is inadequate to enable users of financial statements to understand fully the financial effects of a government's use of financial instruments.

Standards addressing equivalent reporting issues are being adopted by entities applying the *CICA Handbook – Accounting* for year-ends commencing on or after October 1, 2006.

Accordingly, PSAB approved a project on financial instruments and set up a task force to manage the project.

In June 2007, PSAB issued a Statement of Principles for Financial Instruments Exposure Draft. The main features of this Exposure Draft are as follows:

- Fair value measurement is proposed for derivatives and portfolio investments quoted in an active market.
- Hedge accounting treatment is permitted for certain documented hedging relationships where they are demonstrated to be highly effective.
- Flexibility to designate non-derivative financial assets and non-derivative financial liabilities to be reported at fair value is permitted in cases where more relevant information will result, as it:
  - eliminates or significantly reduces a measurement or recognition inconsistency; or

## Future Handbook Sections Affecting the Public Accounts and Related Impacts

- is the basis on which a group of financial assets, financial liabilities or both are managed and performance is evaluated, in accordance with a documented risk management or investment strategy.
- Two measurement categories are proposed for financial instruments:
  - cost or amortized cost; and
  - fair value (with gains and losses recognized in the statement of operations).
- Specific disclosure and presentation requirements for financial instruments are suggested.

Status: Responses to the Exposure Draft have been received and are being evaluated.

While the Summary Financial Statements will not be impacted until PSAB finalizes the new public sector accounting standards for Financial Instruments, financial statements of organizations within the Government Reporting Entity might be impacted in 2007/08 to the extent they have financial instruments, and if they base their accounting on the CICA Accounting Handbook, due to new financial instruments accounting standards in the CICA Accounting Handbook. A specific entity level accounting issue relates to receivables from the Province of Manitoba for Severance, Vacation Pay and Pension Liabilities that some crown organizations reflect in their financial statements. The accounting implications are as follows:

#### Crown Organization Receivables for Severance and Vacation Pay Liabilities

The Province of Manitoba instructed various crown organizations (organizations) several years ago to accrue their vacation and severance pay liabilities in accordance with Canadian generally accepted accounting principles (GAAP). At that time, the Province acknowledged that it would be an unfair burden on the organizations to expect them to recognize these liabilities without financial assistance from the Province. As a result, the Province recognized in the Operating Fund, a liability to the organizations for vacation and severance pay entitlements incurred up to the time of the directive.

In 2005, the Province also recognized in the Operating Fund, the remaining liability of \$234 million for employee future benefits (severance and vacation benefits) owed to health care facilities (Regional Health Authorities and their component health care facilities) and child and family services agencies as at March 31, 2004. These liabilities represent an estimate (using an actuarial valuation for severance) of the benefits that

will be paid at a future date by the respective organizations to employees with respect to past service.

Although the Province has recorded these liabilities in the Operating Fund, there are no specific terms of repayment or requirements for interest payments.

While Operating Fund liabilities are eliminated on consolidation for the purposes of the summary financial statements, this does create an entity level accounting issue because recipient crown organizations have recognized the offsetting receivables from the Province in their respective financial statements. The receivables from the Province are considered to be financial instruments on the crown entity's financial statements, and new CICA accounting standards for Financial Instruments that take effect for fiscal years beginning on or after October 1, 2006 may result in a significant write down of these receivables on the crown entity's financial statements to their net present value, if historical cost (exchange amount) is no longer considered to be an appropriate basis or recognition based on the new accounting standards. A full analysis of the accounting implications as it relates to these crown entities receivables from the Province needs to be performed in 2007/08.

In 2004, we recommended:

That the Government develop a plan to discharge its obligations for vacation and severance pay to the various government organizations involved. As well, we recommended that the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities. (First recommended in 2004)

We will follow up on this recommendation during 2007/08 in the context of what is the most appropriate accounting treatment for vacation and severance receivables by crown entities.

#### Receivables from the Province of Manitoba for Pension Liabilities

Certain organizations within the Government Reporting Entity including the Manitoba Liquor Control Commission (MLCC) have recognized loans receivable from the Province related to pension liabilities. In the 2004 fiscal year, we reported that the Province recognized the loan payable to MLCC of \$45 million to reflect the overstatement of net profits earned up to the end of the 2003 fiscal year. Because MLCC pays all of its net profits

to the Operating Fund, the Province should have recognized a liability to MLCC as at March 31, 2000 for the overstatement of net profits resulting from MLCC's unrecorded pension liability. As a government business enterprise, MLCC is self-sustaining and is responsible for all of its operating costs including its pension costs.

Since 2004, MLCC has ceased recording an increase in the loan receivable from the Province to offset the increase in its pension liability, effectively restricting the increase in the receivable due from the Province. However, there have been no terms of repayment established for the \$45 million loan receivable and the loan is non-interest bearing.

Similarly, in a number of other crown organizations, such as Manitoba Agricultural Services Corporation (the former Manitoba Agricultural Credit Corporation component) and Legal Aid Manitoba, long-term provincial funding commitments of \$6 million and \$11 million, respectively, regarding pension obligations have been recorded, for which there are no terms of repayment or interest payable by the Province.

As previously noted the new financial instruments accounting standards could have implications on the valuation of long term receivables in the crown entity's financial statements

Last year, we recommended:

That the Government develop a plan to discharge its loans from and funding commitments to government organizations for pension liabilities. (First recommended in 2006)

We will follow up on this recommendation during 2007/08 in the context of what is the most appropriate accounting treatment for the pension receivables by crown entities.

## New Accounting Handbook Sections Affecting Financial Reporting for Entities in the Public Sector

In addition to the changes to public sector accounting by PSAB that affect the Public Accounts of the government, there are changes in CICA Accounting Handbook that directly affect its government business enterprises, government business-type organizations and not-for-profit organizations in the public sector. The following is a brief discussion of accounting developments in CICA Accounting Handbook that we believe are significant to organizations in the public sector.

# Transition to International Financial Reporting Standards (IFRS)

Canada is replacing current Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) for publicly accountable enterprises. The CICA Accounting Standards Board (AcSB) defines publicly accountable enterprises to include entities that:

- file their financial statements with a securities commission or other regulatory organizations for purposes of issuing any class of instruments in a public market; or
- hold assets in a fiduciary capacity for a broad group of outsiders, such as banks, insurance entities, securities brokers/dealers, pension funds or investment banking entities (others with large or divers group of users).

"Public enterprises have widely held debt and equity interests and, therefore, a number of stakeholders who, without any contractual right to additional information, depend primarily on the financial statements to make economic decisions. These financial statement users are likely to benefit considerably from access to a wide range of detailed financial information. This is also true in the case of co-operative businesses, regulated financial institutions and regulated financial institution holding companies, rate-regulated enterprises, government business enterprises and government business-type organizations, given these enterprises' accountability to relatively large numbers and diverse classes of stakeholders."

Government business enterprises and government business-type organizations are part of the Government of Manitoba's Reporting Entity and therefore consolidated into the Summary Financial Statements.

IFRS are developed by the International Accounting Standards Board. The move to IFRS will make Canadian GAAP and financial reporting on the same basis with more than 100 countries.

The new standards will have a significant impact on publicly accountable enterprises. There are many similarities between Canadian GAAP and IFRS but there some significant differences.

The expected changeover to IFRS for publicly accountable enterprises is January 1, 2011 for annual periods beginning on or after January 1, 2011. The AcSB will confirm the effective transition date by March 31, 2008.

<sup>&</sup>lt;sup>4</sup> Section 1300.07, CICA Accounting Handbook

#### Inventories - Section 3031

In June 2007, the AcSB issued Inventories Section 3031 which replaces the former Inventories Section 3030.

The main features of the new Section are:

- Measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including the allocation of overheads and other costs of inventory.
- Cost of inventory items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of their individual costs.
- Consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories. Last-in first-out method is no longer allowed to value inventories.
- Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.
- Specific guidance for certain inventories held by not-for-profit organizations.

The Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Earlier application is encouraged.

# New CICA Assurance (Auditing) Standards Affecting Audits in the Public Sector

### Transition to International Standards on Auditing (ISA)

The CICA Auditing and Assurance Standards Board (AASB) is replacing current Canadian Generally Accepted Auditing Standards (GAAS) with International Standards on Auditing (ISA) for all audits in Canada. This will directly impact the audit of the Government of Manitoba's Summary Financial Statements and all entities consolidated in it.

ISA are developed by the International Auditing and Assurance Standards Board (IAASB).

There are many similarities between ISA and Canadian GAAS however there are some key differences:

 The Canadian standards will look different. They will have a different format with standardized sections and subsections;

# Future Handbook Sections Affecting the Public Accounts and Related Impacts

- The standard auditor's report will have significant changes; and
- There are some changes to standards for group audits, estimates, related party transactions, confirmations, use of experts and going concern.

It is anticipated that the new standards will come into effect for periods beginning on or after December 15, 2009.

Appendices



# Summary of Who Conducts the Audits (OAG - Office of the Auditor General; PSA - Private Sector Auditors)

# Appendix A

**Audit Conducted By** 

	Audit Con	ducted b
,	OAG	PSA
Government Business Enterprises		
Leaf Rapids Town Properties Ltd.	X	
Manitoba Hazardous Waste Management Corporation		X
Manitoba Hydro-Electric Board		X
Manitoba Liquor Control Commission		X
Manitoba Lotteries Corporation		X
Manitoba Product Stewardship Corporation		Х
Manitoba Public Insurance Corporation		X
Workers Compensation Board		Х
Crown Organizations		
Addictions Foundation of Manitoba		X
Assiniboine Community College		X
Board of Administration under the Embalmers and Funeral Directors Act	X	
Brandon University	X	
CancerCare Manitoba		X
Centre Culturel Franco-Manitobain	X	
Child and Family Services of Central Manitoba		X
Child and Family Services of Western Manitoba		X
Collège universitaire de Saint-Boniface		X
Communities Economic Development Fund		X
Cooperative Loans and Loans Guarantee Board	×	
Cooperative Promotion Board	X	
Council on Post-Secondary Education	X	
Crown Corporations Council		, X
Diagnostic Services of Manitoba Inc.		X
Economic Innovation and Technology Council	X	
First Nations of Northern Manitoba Child and Family Services Authority		Х
First Nations of Southern Manitoba Child and Family Services Authority		X
General Child and Family Services Authority		X
Helen Betty Osborne Foundation	X	
Horse Racing Commission	X	
Insurance Council of Manitoba		X

# Appendix A (cont'd.)

# Summary of Who Conducts the Audits (OAG - Office of the Auditor General; PSA - Private Sector Auditors)

	Audit Conducted By	
	OAG	PSA
Legal Aid Manitoba	X	
Manitoba Adolescent Treatment Centre Inc.		X
Manitoba Agricultural Services Corporation	X	
Manitoba Arts Council		X
Manitoba Boxing Commission		X
Manitoba Centennial Centre Corporation	X	
Manitoba Community Services Council Inc.		X
Manitoba Development Corporation		X
Manitoba Film and Sound Recording Development Corporation		X
Manitoba Floodway Authority		X
Manitoba Gaming Control Commission	X	
Manitoba Habitat Heritage Corporation	X	
Manitoba Health Research Council		X
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	Х	
Manitoba Housing and Renewal Corporation	X	
Manitoba Opportunities Fund Ltd.		X
Manitoba Trade and Investment Corporation	X	
Manitoba Water Services Board	X	
Métis Child and Family Services Authority		X
Public Schools Finance Board	X	
Red River College		X
Rehabilitation Centre for Children, Inc.		X
Special Operating Agencies Financing Authority	X	
Sport Manitoba Inc.		X
Tire Stewardship Board		X
Travel Manitoba		X
University College of the North	X	
University of Manitoba	X	
University of Winnipeg	X	
Venture Manitoba Tours Ltd.		X
Special Operating Agencies		
Civil Legal Services		X
Companies Office		X
Fire Commissioner, Office of the		X

# Summary of Who Conducts the Audits (OAG - Office of the Auditor General; PSA - Private Sector Auditors)

Appendix A (cont'd.)

	Audit Con	ducted By
	OAG	PSA
Fleet Vehicles Agency		X
Food Development Centre		X
Green Manitoba Eco Solutions		X
Industrial Technology Centre		X
Land Management Services		X
Manitoba Education, research and Learning Information Networks (MERLIN)		X
Manitoba Securities Commission		X
Manitoba Text Book Bureau	×	
Materials Distribution Agency		X
Organization and Staff Development	X	
Pineland Forest Nursery		X
The Property Registry		X
The Public Trustee	X	
Vital Statistics Agency		X
Regional Health Authorities		
Assiniboine Regional Health Authority Inc.		X
Brandon Regional Health Authority Inc.		X
Burntwood Regional Health Authority Inc.		X
Churchill RHA Inc.		X
Interlake Regional Health Authority		X
NOR-MAN Regional Health Authority Inc.		X
North Eastman Health Authority Inc.		X
Parkland Regional Health Authority Inc.		X
Regional Health Authority - Central Manitoba Inc.		. X
South Eastman Regional/Sante Sud-Est Inc.		X
Winnipeg Regional Health Authority		X

# Appendix B Glossary

Accumulated surplus/ deficit	The total of all past annual surpluses and deficits to date.
Annual surplus/deficit	The difference between the government's annual revenues and expenses.
Derivative contract	A "swap" or other financial instrument that is entered into with a third party, and is used to hedge interest rate, foreign currency or other risk exposures.
Effective interest method	Method of calculating the amortized cost of a financial asset or liability and of allocating interest income or interest expense over the relevant period.
Effective interest rate	Rate which exactly discounts future cash payments or receipts over the expected life of the financial instrument.
Financial assets	Assets of government (such as cash, investments, loans and accounts receivable) that can be converted to cash in order to pay government's liabilities or finance its future operations.
General infrastructure assets	Also known as capital assets, physical assets, tangible assets, non-financial assets, physical capital stock. These general program capital assets form the infrastructure necessary to provide services to citizens.
Generally accepted accounting principles (GAAP)	This refers to the accounting policies that government should follow in order to be consistent in its accounting practices with other, similar, organizations. The accepted authority for GAAP for Canadian governments is the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

# Glossary

# Appendix B (cont'd.)

General programs	Those activities of government which are not carried out by its profit-oriented enterprises.
Government Business Enterprises	Also known as commercial, self-supporting, or modified equity enterprises. These are self-sufficient Crown corporations that sell goods or services primarily to parties outside the government reporting entity.
Government reporting entity	The group of organizations that are consolidated in the government's summary financial statements.
Government transfers	Funds received by the Province from the Federal Government, such as the Equalization Transfers and the Canada Health and Canada Social Transfers.
Gross domestic product (GDP)	The money value of goods and services produced within a geographical boundary. GDP can be reported without adjusting for inflation (known as market value, current, or nominal GDP) or it may be discounted for the effects of inflation (real GDP).
Health Care Facilities	These facilities are controlled by a Regional Health Authority. They include faith based hospitals as well as personal care homes.
Hedging	Reducing potential exposure to foreign currency, interest rate or other risks. Often achieved by entering into derivative contracts with a third party.
Net debt	Defined as government's total liabilities less its financial assets, this is the residual liability amount that will have to be paid by future taxpayers.
Public debt	Borrowings of the government. Debt generally consists of debentures, notes payable, capital leases and mortgages.

# Appendix B (cont'd.) Glossary

Public debt expense	Also known as the cost of borrowing, or debt servicing costs, this is the interest incurred by government on its borrowings.
Summary financial statements	The provincial consolidated financial statements through which government reports its financial position and operating results.

Audit of Mandatory Legislative Reviews



# **Audit of Mandatory Legislative Reviews**

## 1.0 Introduction

Legislation affects all aspects of society and civic life. Legislation influences all sectors from health and the environment to culture and recreation. Given the pervasive impact of legislation, it is important that legislation maintain its relevance and necessity.

Over the past decade a number of statutes and regulations incorporated a clause for a mandatory review of the statute or regulation within 5 years of its enactment. Five out of 471 acts and 58 out of 940 regulations within the Continuing Consolidated Statutes of Manitoba contain such a requirement. Although a relatively small amount of legislation requires a review, the impact is widespread in terms of the diversity of legislation to be reviewed and the fact that 11 out of 16 departments have legislation with a mandatory review provision (Exhibit A).

### 1.1 Objectives, Scope, and Approach

#### Objective

To determine whether departments are complying with requirements to undertake mandatory legislative reviews. 1

#### Scope

Our work examined all legislative reviews required between January 1, 2000 and October 31, 2006. Not included in the audit were legislative reviews that were: required by crown corporations, government agencies, municipal government, private sector associations or outside the time period selected for the audit. On that basis, our audit examined 3 act reviews and 41 regulation reviews for a total of 44 legislative reviews (Exhibit A). These 44 legislative reviews affected 11 out of a total of 16 departments.

### Audit Approach

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

<sup>1</sup> Throughout this report the term legislation or legislative refers to both statutes and regulations.

Part of our audit process included roundtable sessions with government staff in order to gain an understanding of their perspective and experience with undertaking mandatory legislative reviews. Exhibit B summarized the results of staff input.

# 2.0 Background

### 2.1 Requirement for a Five Year Review

Fifty-eight out of 940 regulations (6%) and five out of 471 acts (1%) in the Continuing Consolidated Statutes of Manitoba contain a mandatory review clause. In the case of statutes, the review clause requires a "comprehensive review" with consultations. With respect to regulations there are two main variations to the wording of the legislative review requirement: one being to review "the operation" of a regulation; and the other to review "the effectiveness of the operation" of a regulation. The majority (73%) of the 41 regulations we examined required a review of effectiveness and the remaining ones (27%) required a review of operations. In both the case of acts and regulations, the review clause requires that consultations be undertaken as part of the review.

# 2.2 The Mandatory Review Process

For those acts and regulations that require a five year review, it was the responsibility of each department to determine the scope and approach that would fulfill the legal requirement for a review.

The mandatory legislative review clauses are not identical. The wording for review clauses for acts differs from the wording of review clauses for regulations. In regard to acts, the typical review clause is that:

Within five years after coming into force, the minister shall undertake
 a comprehensive review of the operations of this Act that involves public
 representations and shall within one year after the review is undertaken or
 within such further time as the Legislative Assembly may allow, submit a
 report on the review to the Assembly.

In relation to reviews of regulations, we found three versions of the review clause:

The Minister shall review the effectiveness of the operation of this
regulation after consulting with such persons affected by it as the Minister
considers appropriate. If the Minister considers it advisable, he/she shall
recommend to the Lieutenant Governor in Council that the regulation be
amended or repealed.

- The Minister shall review the effectiveness of the operation of this
  regulation after consulting with such persons affected by it as the Minister
  considers appropriate. If the Minister considers it advisable, he/she shall
  recommend to the Lieutenant Governor in Council that the regulation be
  amended, continued or repealed.
- The Minister shall review the operation of this regulation including consulting with such persons affected by it as the Minister considers appropriate. If the Minister considers it advisable, he/she shall recommend to the Lieutenant Governor in Council that the regulation be amended or repealed.

# 3.0 Findings and Conclusions

## 3.1 Compliance with Mandatory Reviews

#### Objective 1

To determine whether departments are complying with requirements to undertake mandatory legislative reviews.

#### Conclusion

Those statutes with a mandatory review clause did undergo the required review. However, in the case of regulations, only 56 % of mandatory reviews of regulations were undertaken. In all cases where a review was completed, the review incorporated stakeholder consultations pursuant to the legislation. Among those reviews that were conducted, there was a variety of interpretations by departments as to the breadth and depth of the work that was to be undertaken to fulfill the requirements for a legislative review.

# 3.1.1 Compliance with Statute Reviews and 56% Compliance with Regulation Reviews

The 44 pieces of legislation that required a review between January 1, 2000 and October 31, 2006 consisted of 3 acts and 41 regulations (Exhibit A). The 3 mandatory statute reviews were undertaken and 23 out of the 41 regulations were reviewed (56%). It should be noted that of the 23 regulations for which a review took place, 8 reviews were initiated for reasons other than the mandatory review. In those cases, the purpose of the reviews was to ensure that the regulations were consistent with changes in policy direction. The scope and approach to

those reviews did not factor in how to also meet the intent/expectations of the mandatory review clause.

In cases where there was non-compliance with a review, departments gave explanations such as:

- on-going contact provided stakeholders with a forum to raise any concerns they have with the regulation and therefore there was no need to undertake a formal review;
- a review of the file showed no complaints from stakeholders and therefore the conclusion was that the regulation was working satisfactorily; and
- · resource limitations resulted in the need to prioritize.

Where a decision was made not to undertake a review, with one exception, ministerial approval was not sought regarding the decision. According to staff, the one case where ministerial approval was sought and given, the regulation took longer than expected to implement and therefore there was insufficient data to carry out the review. Moreover, we did not find evidence that legal advice was sought regarding decisions not to undertaken a mandatory regulation review.

#### 3.1.2 Consultation Undertaken in Reviews

As noted earlier, the legislation on mandatory reviews expects that these reviews be conducted with consultations as deemed appropriate by the minister responsible. For those reviews that were undertaken, consultation was included as part of the process. However, the consultation process could have been strengthened by formalizing objectives for the reviews.

#### 3.1.3 Breadth and Depth of Reviews Varied

We recognize that the extent of the undertaking could be different for a review of an act versus a regulation, and that the scope of a regulatory review could differ depending on the nature/impact of a regulation. Nevertheless, the planning and reporting on mandatory legislative reviews during the period we examined was only partially adequate. Variations in the way in which departments handled reviews is summarized in Figure 1.

Given our findings, the process of legislative reviews would benefit from a framework to help departmental staff charged with undertaking or co-coordinating these reviews to determine how best to fulfill the intent of the mandatory legislative review. Useful guidance is one which would:

provide departments with an analytical framework through which they
can make decisions and choices about when to consider including a review
provision in legislation; the scope and approach to use in undertaking a

- given review; and the type of report to be prepared at the conclusion of a review; and
- identify resources/expertise that departments can tap into (e.g., contact
  persons to assist with interpretation of expectations pertaining to any
  aspect of the guidance such as ensuring adherence with sustainable
  development principles and other government policies/priorities).

Figure 1

	Observations
Terms of Reference for Undertaking a Review	<ul> <li>Among those reviews that were completed, typically terms of reference were not prepared. In some cases, the report prepared at the end of a review briefly explained the process that was followed. However, explanations of a review process essentially dealt with the consultations undertaken; typically, it did not identify the review objectives.</li> </ul>
Persons Assigned to Undertake a Review	<ul> <li>Those involved in legislative reviews tend to have technical knowledge of the subject area. Legislative reviews would be improved by assessing competencies required beyond specific technical expertise and staffing reviews accordingly.</li> </ul>
Consultations	• In all cases the reviews relied on consultations although the consultation was not driven by review objectives. In the case of reviews of statutes, the consultations were broad based and extensive using websites to provide access to discussion/issues papers and list public meetings. In the case of reviews of regulations, consultation was sometimes with stakeholders, sometimes with staff internal to government. In some cases input on regulation reviews was sought through a committee forum, in other cases through one-on-one meetings.
Reports Prepared at the Conclusion of a Review	<ul> <li>In all cases, some type of report was prepared after a legislative review.</li> <li>These reports identified the concerns that may have been identified by those who were consulted during the review process.</li> </ul>
	<ul> <li>For the most part, review reports provided minimal information on the scope and approach of the review. The focus of reports was on communicating the problems identified by persons consulted and proposing amendments to the legislation and other solutions to address stakeholder concerns.</li> </ul>
	<ul> <li>With respect to reviews of statutes, the review clause requires that a report be submitted to the Legislative Assembly on the review. The focus of such reports was on the consultation process (e.g., the forms of consultation, who was consulted, and the number of persons who made representation). Accountability would be strengthened by sharing with the Legislative Assembly findings, conclusions, recommendations and next steps.</li> </ul>

Variations In How Reviews Were Undertaken	
	Observations
Follow-up On Review	The review recommendations were generally implemented. Typically, the recommendations were for amendments to legislation.
Recommendations	<ul> <li>In a few cases, departmental staff did not have documented information regarding whether all the recommended amendments were implemented. This is partly due to the fact that in a number of cases, reviews and subsequent amendments took place under a previous incumbent. This situation reinforces the value of having documentation that provides information on the status of recommendations.</li> </ul>

## 4.0 Recommendations

#### Recommendation 1

That a plan be developed to address the non-compliance with mandatory regulatory reviews.

#### Recommendation 2

That guidance be prepared in consultation with departmental staff to:

- a) assist departmental staff when they consider whether to include a mandatory review provision in legislation;
- b) clarify government's expectations in relation to the legislative provisions on mandatory reviews; and
- assist departments in planning, conducting, and reporting on mandatory legislative reviews.

#### Recommendation 3

That legal advice and ministerial approval be sought when a department is considering not undertaking a mandatory legislative review within the prescribed time period.

# 5.0 Response from Officials

We accept the Office of the Auditor General's recommendations with respect to this report. The Deputy Ministers of each department will be charged with the responsibility of ensuring that appropriate action plans are implemented to address instances of non-compliance as well as ensuring that staff are provided with overall guidance on the process to be undertaken regarding mandatory reviews. In addition, Deputy Ministers will be responsible for seeking legal advice and Ministerial approval if the Department is considering not proceeding with a mandatory review within the prescribed time period.

### Exhibit A

# Legislation Requiring a Review Between January 1, 2000 and October 31, 2006

#### STATUTES

#### Department of Culture, Heritage and Tourism

1. The Freedom of Information and Protection of Privacy Act

#### Department of Health

2. The Personal Health Information Act

#### Department of Justice

3. The Victims' Bill of Rights

#### REGULATIONS

#### Department of Agriculture, Food and Rural Initiatives

- 1. The Farm Machinery and Equipment Regulation
- 2. The Pari-Mutuel Levy Regulation

#### Department of Conservation

- 3. The Park Reserves Designation Regulation
- 4. The Exotic Animal Regulation
- 5. The Used Oil, Oil Filters, and Containers Stewardship Regulation
- 6. The Contaminated Sites Remediation Regulation
- 7. The Livestock Manure and Mortalities Management Regulation
- 8. The Swimming Pools and Other Water Recreational Facilities Regulation

### Department of Family Services and Housing

- 9. Adoption Agencies Licensing Regulation
- 10. Adoption Regulation
- 11. Financial Assistance for Adoption Permanent Wards Regulation
- 12. Post-Adoption Registry Regulation
- 13. Intercountry Adoption Regulation
- 14. Child Abuse Regulation
- 15. Child and Family Services Regulation
- 16. Child Care Facilities (Other than Foster Homes) Licensing Regulation
- 17. Foster Homes Licensing Regulation
- 18. Vulnerable Persons Living with a Disability Regulation

#### Department of Finance

- 19. The Rule-Making Procedure Regulation
- 20. The Commodity Futures Rule-Making Procedure Regulation
- 21. The Life Leases Regulation
- 22. The Investment Restrictions Regulation
- 23. The Cooperatives Regulation
- 24. The Condominium Forms Regulation

#### Department of Health

25. The Regional Health Authorities Establishment Regulation

## Department of Science, Technology, Energy and Mines

- 26. Drilling and Production Regulation
- 27. The Oil and Gas Production Tax Regulation.
- 28. Mines Closure Regulation

### Department of Intergovernmental Affairs

- The Rural Municipality of Shellmouth and the Rural Municipality of Boulton Amalgamation and Transitional Arrangements Regulation
- 30. Local Urban Districts Regulation

#### Department of Justice

- 31. The Correctional Services Regulation
- 32. The Victims' Rights Regulation
- 33. The Domestic Violence and Stalking Regulation
- 34. The Child Support Guidelines Regulation

### Department of Labour and Immigration

- 35. The Domestic Workers Regulation
- 36. Home Care Workers and Residential Care Workers Regulation
- 37. Minimum Wages and Working Conditions Regulation
- 38. First Aid Regulation

### Department of Infrastructure and Transportation

- 39. Commercial Motor Vehicle and Trailer Trip Inspection Regulation
- 40. Lighting and Marking of Agricultural Equipment on Highways Regulation
- 41. Safety Helmets Standards and Exemptions Regulation

### Exhibit B

## **Staff Perspective**

Staff contact persons were identified to us by deputy ministers in each department.

We engaged those staff in three roundtable sessions to discuss their experiences with mandatory legislative reviews, and to identify potential elements that could serve as guidelines for staff when undertaking legislative reviews. We also invited central government staff who are involved in reviewing proposed regulations to participate in the roundtable process.

#### Staff Perspectives on the Benefits of Mandatory Legislative Reviews

While staff were of the view that legislative reviews are worthwhile, they did not think that it was necessary to enshrine a review clause in legislation as a trigger for a review. Staff pointed out that amendments can and do take place outside the context of a five year review in order to address various issues and changes in standards/expectations. It was also noted by some staff that the review date prescribed in the legislation is arbitrary and did not necessarily reflect the most appropriate time for undertaking the review. Those staff also pointed out that having fixed review dates in legislation sometimes results in a department having to put resources towards fulfilling a requirement that they may consider premature or untimely for one reason or another.

Additionally, staff felt that given the on-going contact that they had with their stakeholders, they were made aware of any concerns with the legislation. In this regard, it should be noted that in virtually all cases where legislative reviews were conducted, the review clause was not renewed.

#### Staff Perspectives on Challenges

When asked about the challenges that they experienced in undertaking legislative reviews, staff identified a wide range of issues (Figure 2). The challenges identified by staff are factors that impact departmental capacity to respond to legislative reviews. The issues raised in Figure 2 also provide context and explanations as to the variations we found in planning and reporting legislative reviews (Section 3.1.3).

#### Challenges Identified by Staff in Conducting Mandatory Legislative Reviews

#### Staff Resources

- Part way through a review, staff are sometimes diverted to other
  priorities. Ideally, staff who are assigned to a review should have their
  normal duties temporarily relieved for the purpose of conducting the
  review in order to give the review the attention it needs on a timely
  hasis
- Reviews consume a considerable amount of staff time.

#### Data

- Data may not always be available to properly conduct the review.
- Sometimes there are difficulties in accessing information that is considered private (e.g., information from business/industry).

#### **Consensus Building**

- Reaching consensus among the various stakeholders both internal and external to government can be difficult.
- Reconciling or balancing political values with stakeholder wishes and empirical data can be problematic.

#### **Appropriate Review Process**

 Determining the right review scope and approach, who to involve, how broadly to consult (i.e., aspects of designing the review can be challenging).

### **Assessing Performance**

Some statutory and regulatory goals/objectives are difficult to measure.

### Stakeholder Input

- There are difficulties in getting various stakeholders to discuss and be involved in the review process in a meaningful way.
- Staff lack the skills in knowing how to engage elected representatives in a meaningful way.

### Clarity of Regulatory Objectives

 In some cases the objectives of the regulation are not clearly defined therefore making the review difficult.

#### **Managing Public Expectations**

 There is a need for educational/informational material for citizens/ stakeholders to help manage public expectations of a review (expectations can be unrealistic).

#### Staff Perspectives on Interpretations of the Legislative Requirement

According to staff perspectives, the requirement to review the "effectiveness of the operation of a regulation" is essentially the same as the requirement to review the "operation of a regulation". Staff identified a range of dimensions that they believe should be included in a review of regulations (Figure 3).

Staff were also of the opinion that in regard to statute reviews for which the requirement is to "undertake a comprehensive review of the operation" of legislation, that the undertaking should be broader in scope than a regulation review. This would include the examination of all aspects listed above in relation to a regulation review as well as:

- · the policy behind the legislation; and
- · the regulations passed under the legislation.

#### Aspects to be Included in Guidelines for Conducting Mandatory Legislative Reviews

Our roundtables also gauged staff reactions to areas of potential guidance in the legislative review process (Figure 3). The ideas presented in Figure 3 represent a starting point. Figure 3 also highlights the fact that there are a number of key decisions that have to be made in planning, conducting and reporting on legislative reviews all of which impact the quality of a review.

Figure 3

Potential Topics for Inclusion in Guidelines	Staff Perspectives on Elements to Include in Guidance
Review Objectives Interpreting the objectives/ expectations regarding the legislative provisions for mandatory reviews (e.g., what does an effectiveness review entail).	Guidance on how to adequately define review objectives.
Review Plan/Terms of Reference Providing guidance on developing a review plan at the outset. Providing pointers on how to determine what is the right breadth and depth for a review.	<ul> <li>Guidance on components that need to be considered in planning and conducting a review could cover the following types of topics:         <ul> <li>How the regulation/legislation was implemented.</li> <li>The views of staff who implement or are guided by the act/regulation.</li> <li>Whether it has achieved intended outcomes.</li> <li>Compliance/non-compliance and the reasons.</li> <li>Whether it responds to client need.</li> </ul> </li> </ul>

Potential Topics for Inclusion in Guidelines	Staff Perspectives on Elements to Include in Guidance
	<ul> <li>Whether it fulfills political/ministerial expectations.</li> <li>Anecdotal information on file such as any complaints.</li> <li>The adequacy of enforcement.</li> <li>How well it is understood by those responsible for its implementation.</li> <li>How well it is understood by those affected by it.</li> <li>Other alternatives to legislation/a regulation that may achieve the same intent in a better way (i.e., better policy instruments).</li> <li>The impact of repealing provisions.</li> <li>Client/stakeholder views on how well the legislation/regulation is working.</li> <li>Trends in other jurisdictions.</li> <li>Changes in circumstances/emerging trends that may require repeal of the act/regulation or changes to either or both.</li> <li>In the case of act reviews, as well as all of the above, a review of the policy behind the act and the regulations.</li> </ul>
Impartiality Having an expectation that persons involved in the review process are unbiased and provide balanced reporting of the review findings.	<ul> <li>Persons conducting the review should be objective in order to avoid the perception of bias.</li> <li>A review should be co-led between persons internal and external to government.</li> <li>Ensuring that the person leading within government is sufficiently senior to be able to undertake effective co-ordination and interactions with government executives and the political level.</li> <li>Stakeholders should be involved in the design/planning of the review, its execution and preparation of the review report.</li> <li>Stakeholders should be involved in reviewing the legal text as this would ensure a better product.</li> </ul>
Competencies Identifying the range of skills needed to undertake the reviews and having the expectation that at the outset of a review, the skills mix for a given review will be identified and the right resources assigned to the undertaking.	Using multi-disciplinary team with the following range of competencies depending on the nature of the review and its scope  - Mediation and facilitation skills.  - Good listening skills.  - Ability to co-ordinate between competing objectives/ perspectives (e.g., differences among stakeholder views including departments, political perspective).  - Policy expertise.  - Subject matter specialists (technical knowledge).  - Critical thinkers/problem solvers, analytical skills.  - Communication skills.

Potential Topics for Inclusion in Guidelines	Staff Perspectives on Elements to Include in Guidance
	<ul> <li>Person(s) known to the stakeholders as someone with credibility.</li> <li>Legal expertise.</li> <li>Financial expertise.</li> <li>Statistician/expertise in review methodology.</li> </ul>
Consultations Determining the right form of consultation; and who to consult within government and externally.	Guidance on selecting the most appropriate forms of public consultation in different circumstances and in relation to financial resources available (e.g., when is it more effective to use focus groups versus an open house or town hall meeting, etc.).
Reporting Identifying the content of review reports and who should receive such a report.	Guidance on the type of review report expected and its content which could include:  the nature of the review provision;  objectives of the review;  the scope and approach;  what has been achieved under the legislation;  any problems/issues; and  recommendations.
Post Review Action Expecting departments to track steps taken in relation to a review report.	<ul> <li>Keeping an internal record on file that tracks decisions made after a review including the disposition of any recommendations that were made.</li> </ul>



